EFFECT OF THE FOOD SECURITY ACT OF 1985 ON THE DOMESTIC LIVESTOCK, DAIRY, AND POULTRY INDUSTRIES

HEARING

BEFORE THE

SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

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SUBMITTED MATERIAL

EFFECT OF THE FOOD SECURITY ACT OF 1985 ON THE DOMESTIC LIVESTOCK, DAIRY, AND POULTRY INDUSTRIES

THURSDAY, SEPTEMBER 3, 1987

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Pueblo, CO.

The subcommittee met, pursuant to notice, at 8 a.m., in 4-H Auditorium, Colorado State Fairgrounds, Pueblo, CO, Hon. Charles W. Stenholm (chairman of the subcommittee) presiding.

Present: Representative Campbell.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: Daniel B. Waggoner and James A. Davis.

OPENING STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. This public hearing of the House Agriculture Subcommmittee on Livestock, Dairy, and Poultry will now come to order.

Good morning to each and every one of you. We are glad to see you here as we are glad to be here. I am Charlie Stenholm, and it is my pleasure to welcome you to today's hearing.

The subcommittee looks forward to receiving testimony and written statements from a broad slate of witnesses who will focus upon the 1985 farm bill and its effect upon the domestic, livestock, dairy and poultry industries.

Joining me on my right is the distinguished chairman of the House Agriculture Committee, my good friend and strong supporter of American agriculture, Congressman Kika de la Garza of Texas.

On my left, I think you recognize, my colleague and your Congressman, Ben Campbell. Ben, we appreciate very much you inviting us to your district for the purpose of hearing from your constituency and the entire state of Colorado.

On behalf of the subcommittee, we really do appreciate your invitation to be here. I have found in my brief service in the Congress that it is always helpful to get home and listen to your constituency. Moreover, if we are to do our job regarding agriculture as a whole, it is important to hear from other constituencies. And it is a lot less expensive for us to come to you than for this audience to come to Washington.

I believe the strength and support of the 1985 farm bill is in the fact that it is a policy of the times, it is a compromise. The 1985 farm bill is not perfect. It certainly has not yet solved all of the problems we are facing in agriculture today.

And I'm sure most everyone in this room understands what the concerns are today. No piece of legislation can ever solve all of the problems. It takes more than legislative action. We also must recognize that the challenges will always be there just like they always have been.

In summary, let me say one of the thorniest patches we have to go through in developing agricultural policy is finding a way not only to deal with producers problems for the next growing season or production cycle, but address our future as well. Hopefully, today's hearing will help focus attention on new thoughts, concerns, and questions which will need to be explored and studied as we move toward the future.

At this point in time, I would like to recognize Chairman de la Garza for any opening remarks that he might like to make. Mr. Chairman.

OPENING STATEMENT OF HON. E (KIKA) de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The CHAIRMAN. Thank you very much, Mr. Chairman.

I very much appreciate my personal invitation and the invitation to the committee from our good friend Ben Campbell, a valued member of the Agriculture Committee. I am very happy that I was able to be here with Ben, as we feel that he in behalf of Colorado agriculture and agriculture in general throughout the United States is making a valued contribution.

We have enjoyed very much working with him. I have not been in this area for a couple of years, and I thought it would be good for me to come back. We have enjoyed a little bit of the fair yesterday, and I hope we will have more opportunity to visit with as many of the farm, ranch, and agricultural producers and friends in this area as we have opportunity throughout the day.

Those of you who are going to participate, we appreciate your contribution. We came, as Chairman Stenholm has said, to listen to you, to receive your concerns, your contributions as to what we can do further. I would like to extend my special appreciation to the commissioner of agriculture, Dr. Decker, for his appearance here today, and also publicly to extend my appreciation for the kind reception the Governor gave me last night and the visit that I had with the Governor last night.

So, Mr. Stenholm, Mr. Chairman, I turn the mike back to you. I have a distinct pleasure being a member of all of the subcommittees, which just adds to the work that I have to do, but it means that I can go to the countryside and visit all of the areas of the United States when they travel. So I appreciate being with you today and hope that we have a very good hearing.

To those of you who have come to participate, we thank you again, and Ben, thank you for inviting us. We hope that we have you as our colleague for many more years to come.

Mr. STENHOLM. Thank you, Mr. Chairman.

Ben, before I recognize you for your opening remarks, let me express my regret in missing the festivities last night, the rodeo, and the junior livestock sale. Furthermore, I also understand that there were a lot of Texas jokes that were going around last night. Well, we are big enough to take it, and we want to assure you that there is no validity to the rumor that the relationship of your district with this committee will be hurt. Nothing to that.

We are able to take any and all jokes at all times, even when you joke about the Dallas Cowboys because we are going to have to play Denver this year.

Ben, I am very pleased now to recognize you for any opening remarks. And, again, I say thank you for inviting us here to Pueblo. It shows your interest not only in your district but in your entire State.

OPENING STATEMENT OF HON. BEN NIGHTHORSE CAMPBELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. CAMPBELL. Thank you, Mr. Chairman.

After going to the rodeo last night with Chairman de la Garza and hearing a few of the jokes, I was a little concerned that I might be the only one here this morning, but it is nice that you took it in good jest, and that seems to be the ongoing thing in Colorado, Texas jokes. Perhaps there are Colorado jokes where you come from.

But I know you would rather be on your own ranch where you raise cotton, wheat and Santa Gertrudis cattle, and I appreciate you coming up to host this hearing.

I can't even remember the last time an agricultural subcommittee hearing was in Colorado, and last night I was talking to a gentleman who is in the audience, Dave Rise, who many of you folks know, who has been active for over four decades in Colorado agriculture being virtually the pre-eminent voice in the State legislature for agriculture.

I asked Dave if he could remember when the last hearing was in this State, and he said he could not remember there ever being one. I think I am safe in saying if Dave Rice can't remember there being one, there has not been one. He has certainly been active for years in the Colorado agriculture community.

To host this subcommittee and to have the chairman of both the full committee and the chairman of the subcommittee come to Colorado gives us a great opportunity to express our concerns to the most powerful agricultural voices in the U.S. Congress.

I know that you have taken time out from your own schedules, and I appreciate that. Agriculture is a very important part of the economy in Colorado. We have approximately 27,000 farmers in the State of Colorado, nearly 12 million acres under cultivation. And, in addition, we have about 30 million acres in range and pastureland.

With farm gate sales of $3 billion annually and $600 million worth of agricultural products being exported out of the State this year, I am proud to serve on the Agriculture Committee with both

of the gentlemen from Texas, and will work with the committee and the State interests to make our future brighter.

The youth who have contributed to the exhibits around us in this hall are going to be part of that future, with many of them destined to be agricultural leaders in this State; 59 of the 63 Colorado counties are represented in this 4-H building today here at the State Fair with over 2,000 exhibits covering 28 nonlivestock 4-H project areas.

It took 140 teenagers, adult volunteers and cooperative extension staff two and a half days to judge the exhibits alone. In addition, to the exhibits there are contests and activities taking place during the fair involving over 1,000 4-H youth from all over Colorado. The 4-H program which my family has been proud to be involved in over the years, provides the foundation for our youth as future leaders.

For over 75 years, that leadership has grown and developed at this State Fair. Our hosts have provided a most appropriate place to hold an agricultural hearing. I appreciate the contributions of 4-H and I hope that each of you will take time to visit the exhibits in this building before you leave.

I want to also thank Jerry Robbe, the general manager of the State Fair, who has done a great job. Particularly making last minute rearrangements when we realized we might get a crowd bigger than the original room could hold. He has done a super job, and we certainly appreciate the work he has put into this hearing.

And I want particularly to thank all of the people that showed up to testify, to have some input, and to participate in this hearing, and I hope that this will set a precedent that will be ongoing each year.

Thank you, Mr. Chairman.

Mr. STENHOLM. You make a very valid point, Ben. This is a perfect setting for an agricultural hearing, looking at the current and future of agriculture.

Before we call upon our first panel, let me make some important announcements. In order that all of our witnesses be afforded an equal opportunity to present their testimony, the Chair would respectfully ask that all witnesses summarize their remarks within a 5-minute time period with the assurance that the entire written text that you present and all supporting documents will be made a part of today's hearing record.

In addition, if there is no objection, today's hearing record will remain opon for 10 days for purpose of receiving additional and requested written information.

Furthermore, we hope to have a couple of minutes after the conclusion of the last panel to receive any comments or questions from anyone in the audience. If there are no further questions, let's proceed with our first panel.

I would like to call on Dr. Peter Decker, Colorado Commissioner of Agriculture, Denver, Colorado. Commissioner, we welcome you. We thank you for being here today.

STATEMENT OF PETER R. DECKER, COLORADO COMMISSIONER OF AGRICULTURE

Mr. DECKER. Thank you, Mr. Chairman. Thank you for visiting our good State, and I hope you have a chance to walk around and visit the fair.

You will notice as you do that agriculture is very much the centerpiece of this fair as it is the centerpiece of the economy of this State.

My name is Peter Decker, commissioner of agriculture for the State of Colorado. On behalf of the agricultural community and I underline the word community and the Governor, Roy Romer, I would like to welcome you to our beautiful State and hope you will take advantage of this opportunity to enjoy our State, visit it, and see this State fair which is in fact the showcase of Colorado agriculture.

I would also like to express my appreciation to Congressman Campbell, and the other members of the House Agriculture subcommittee for holding hearings in Pueblo so as to learn firsthand about the economic issues facing Colorado agriculture.

My remarks to you today will focus on the financial condition of agriculture in Colorado. The producers of agricultural products in this State face a common concern, the availability of affordable credit, long-term credit. Such credit is the linch-pin to the future for many of our State's producers. For unless the credit situation is remedied soon, no farm bill can be of much assistance to agricultural producers in Colorado.

Others appearing on the agenda today will address many specifics of the farm bill. I would like to preface their remarks by discussing the financial setting and where I perceive progress can be achieved. I believe all, and I underline the word "all" of Colorado agriculture believes there is a credit crisis.

Currently, one-third of our producers are in such serious financial straits, that they will not likely be in business in the year 1989. Another third of our producers, particularly among grain producers, have leveraged their assets so heavily that any significant increase in production costs could force them out of business.

The possibility of sharply higher costs for petroleum based inputs in agriculture looms as a specter on the horizon. Private sector capital sources, specifically small rural banks, are incapable of serving the needs of all of Colorado's producers. Those private banks willing to lend to the agricultural sector are generally unable to provide long-term capital in sufficient amounts to meet agricultural demand, while those private sources with adequate capital are generally unwilling to make farm and ranch loans due to the high risk associated with agricultural investment.

Who would blame them for being a little gun-shy, for in the last 3 years the Colorado banking industry has suffered severe losses. In essence, their well is dry as it relates to long-term agricultural credit. Federal farm credit sources are the primary vehicle for long-term credit in Colorado.

They are not healthy, and they are not serving the needs of the industry. In my opinion, the Farm Credit System is in disarray. Uncertainty concerning the future of farm credit has caused conf

sion among its ranks, and those farmers and ranchers considered good risks are themselves wary about continuing their relationship with a system in financial difficulty.

In short, the system lacks credibility both in terms of its management and its financial resources. We have seen, however, some improvement in the administration of the Wichita Bank in recent months, and I sense that the agency is attempting to cooperate with producers in difficult positions.

I also believe there is an earnest effort on the part of most local office directors to try to work with the borrowers in restructuring loans where they can. But the Colorado Department of Agriculture continues to receive numerous complaints from producers who tell us that foreclosure notices arrive in the mail, not loan restructuring offers.

Too often, producers are placed in foreclosure when the debt could be profitably restructured, and the farmer or rancher allowed to remain in business. These foreclosure cases are too often the result of overzealous office directors ignoring or misinterpreting the directives of the Wichita bank. I applaud, however, the efforts of the House Committee on Agriculture to work to recapitalize and restructure the Farm Credit System.

In particular, I believe that establishing a new secondary market for agricultural loans will help enormously. The Farm Credit System needs a vehicle by which risk can be spread out and new capital obtained through the Aggie Mae concept. Also, a decentralized system must be maintained but with greater accountability.

With regard to the Farmers Home Administration, it is, at the present time, the major blockage in the delivery system for farm credit in Colorado. I need not remind you of the unavailability of farm ownership loan guarantees in the country, but I must inform you of the disastrous consequences this lack of funding is having on Colorado producers.

FmHA farm ownership guarantees could expedite many farm loan restructuring efforts in this State. Indeed, without these guarantees, many producers are without any alternatives. The Farm Credit System needs loan guarantees from Farmers Home to enable it to pursue its efforts to renegotiate and restructure its delinquent loans.

In Colorado alone, $4.3 million was allocated for the farm ownership guarantee loan program. Needless to say, in this era of loan restructuring, it doesn't take many loans to utilize the relatively small amount. However, this fiscal year there are, by our reckoning, around $10 million left over in Colorado's guaranteed operating loan program. But the administrator's office in Washington refuses to allow these funds to be transferred to the area where there is greatest need and demand.

The Colorado Agricultural Development Authority, a quasi-public agency created to generate capital in the farm and ranch industry, has over $100 million in taxable bond funds to purchase Farmers Home ownership loan guarantees. This would obviously add significantly to the availability of credit in rural Colorado.

But since these funds are tied to Farmers Home real estate loan guarantees, the money lies idle while our State's farmers and ranchers continue to suffer from a lack of credit. Private banks

also need Farmers Home loan guarantees to enable them to continue to loan operating capital to their long time borrowers.

Often, commercial lending sources could and would gladly take on partnerships with Farmers Home were it not for the multiplicty of delays, regulations, and confusing agency directives. In Colorado, only 8 percent of our 250 commercial agricultural banks will process Farmers Home loan guarantees.

Our department has closely examined how Farmers Home is working in the State. It is not working well uniformly, and in some cases it is not even working minimally. We have learned that some county supervisors are unwilling to make loan decisions at their level. They are sending the applications to a higher level resulting in unnecessary delays.

My department surveyed the 250 commercial banks involved in farm lending. Of the banks responding, we have learned that the overwhelming majority have a negative attitude towards the agency. But it is important to note that we did learn that certain Farmers Home offices did receive positive reviews from the local commercial bankers, particularly in northeast Colorado and also in the Lamar area.

I can only surmise that more needs to be done to foster a better relationship with commercial lending sources, and in spite of efforts at the State level to provide assistance to the agricultural community, we are stymied by the lack of available funds and an uncooperative attitude in the Washington, D.C. office of the Farmers Home Administration.

There is yet another problem with Farmers Home. This past year, the Colorado General Assembly adopted legislation to require mediation before a loan could proceed into foreclosure. Mediation is a legitimate recourse to immediate foreclosure, but it would seem as though the administrator of Farmers Home sees mediation as something to be avoided at all costs.

In a memorandum dated August 3, 1987, Farmers Home administrator Vance Clark instructed his State directors that "Farmers Home is not obligated to participate in mediation services even if the State legislation authorizing or requiring mediation purports to apply to Federal agencies."

Mr. Clark goes on to say that "State, district and county office personnel will not participate in any mediation procedures, negotiations, or conferences involving mediation services created under their respective State laws." Mr. Clark offers as an explanation the agency's fear that any cooperation with mediators might prejudice the agency's position in a pending civil action.

Colorado's Farmers Home State director, Ruth Fountain has previously notified the Department that although she was unwilling to recognize that State-mandated mediation applied to a Federal agency, she would instruct her State personnel to voluntarily cooperate in Colorado's mediation efforts.

Mr. Clark's directive has removed any hope that State mediation legislation will work in the short term, and how many farmers and ranchers will be forced to liquidate a potentially profitable operation because of Clark's mean spirited attitudes expressed in his directive to State offices?

In summary, Mr. Chairman, the farmers and ranchers in Colorado deserve better treatment than what they have received from an inflexible and antagonistic Farmers Home Administration. We are roady to work with our State FmHA office, and we will offer assistance to the local office directors who will accept it. But we cannot accomplish our fundamental goal of assisting Colorado's farmers and ranchers without the cooperation we need at the Federal level.

We need Farmers Home Administration farm ownership guarantee funds immediately. These funds can be made almost overnight if the administrator so decides. We need leadership which will recognize mediation as a viable alternative to foreclosure. We need Congress to call the agency on the carpet again and again until the message gets through.

Farmers Home Administration is the major bottleneck in the farm credit delivery system, and it is plugged solid right now as I speak to you. Our State's producers are not looking for a handout or a bailout. They are looking for the fulfillment of a promise made. They expect and deserve a Federal credit assistance system which is affordable, efficient and equitable. It is critical to the importance of agriculture in this State. Thank you very much.

[The prepared statement of Mr. Decker appears at the conclusion of the hearing.]

The CHAIRMAN. Excellent statement. Mr. Campbell or Mr. Stenholm.

Mr. CAMPBELL. No questions, Mr. Chairman.

Mr. STENHOLM. I have no questions, but I would comment just briefly on several of the points that you raised. Let me say, I appreciate very much your favorable comments on some of the actions that the House Agriculture Committee has taken regarding farm credit.

Much of what you have indicated today that needs further attention by the Congress regarding various administrative procedures both within Farmers Home Administration and Farm Credit System in my judgment is within enacted legislation. I am very pleased to report to you and others that in regard to some of the restructuring that we and the committee have felt was necessary in the Farm Credit System, that the Farm Credit System leadership of the United States in a meeting over the weekend, which Chairman de la Garza attended, and met the challenge.

They have now developed some proposals that the full committee will be able to consider prior to bringing the legislation to the floor of the House.

The secondary market that you indicate your support for is said to be necessary if the Farm Credit System is to again become a viable farm lender that it once was and should be.

I opposed the secondary market proposal for two basic reasons. One, is that I questioned how many more Federal guaranteed lending programs this country can afford. Furthermore, I was very concerned that a secondary market would become a noose around the neck of the Farm Credit System as we attempt to restructure it.

In other words, by bringing in additional competition at a time that the system is weak, it is going to be very difficult to project how we are going to strengthen it. But in the legislative process, those questions were answered, and I think now with the secondary

market and the restructuring provisions, the secondary market could be a very positive influence.

In regard to the Farmers Home Administration, Mr. Campbell and I are not a part of the Conservation and Credit Subcommittee, but both of us have been very interested in sitting in and listening to testimony during hearings regarding the manner in which Farmers Home is being administered.

I am glad to see that at least parts of Colorado are utilizing the guaranteed lending program.

That indicates that it can and should be done in all parts of farm country. We have to continue to be diligent in looking at what makes it work and what makes it not work in various areas.

Mr. CAMPBELL. Mr. Chairman, maybe if I might just add a comment not a question to Dr. Decker. Since I have been home, I guess, about 25 days I think I have probably met with 100 or so farmers and virtually all of them that I met with were in distress in some way or another.

I don't think most of them at least at the grass roots level have had a chance to look at the farm credit bill as it came out of committee, but for those of you in the audience who do not know where it is, one of the reasons we wanted to have this hearing because the farm credit bill has not gone to the floor yet.

We were under direction from the Speaker awhile back to try to get this bill that revises the Farm Credit System to the floor before the break in August. And due to the foresight of both Chairman de la Garza and Chairman Stenholm, we kind of held off on that so that we could go out and get some grass roots input on it before we take it to the floor if there are some things in there that we need to change. That is why we want to hear from folks now during this break.

Obviously, there is an awful l of input. As I remember there was about 15 different hearin involving over 115 witnesses, so there were a great number of le that came back here to voice their concerns about this bill. it just as obviously it is not going to help the people that have al ly lost the farm.

And many of the people tha e been coming in to me I tried to explain to them at least to my ability what this is going to do to resolve future problems. H.R. 3030 certainly does not resolve the problems that they are already having with the Farm Credit System.

I am just very sorry that there are some things we cannot go back and fix that have been done from previous mistakes. But hopefully some of the things we are doing now will address these problems in the future.

Mr. DECKER. As my testimony indicates, some of the problems are internal and administrative within agencies that already have the legislative mandate or the authority to act to assist the system. And it is my judgment in certain instances there is not an attitude to assist, despite the fact that the laws are on the books and the money has been authorized.

Mr. STENHOLM. Thank you very much for your excellent testimony and your continued input to this committee.

Mr. DECKER. Again, all of Colorado agriculture welcomes you to this State, and we very much appreciate your presence here.

Mr. STENHOLM. We now call panel two. Mr. Propst, Mr. Brown and Mr. Wiley. The first witness will be Mr. Keith Propst, president, Colorado Farm Bureau. Mr. Propst.

STATEMENT OF T. KEITH PROPST, PRESIDENT, COLORADO FARM BUREAU

Mr. PROPST. Thank you, Congressman.

We are indeed pleased from the Colorado Farm Bureau that you gentlemen are here, and we think that it is very appropriate and timely that you come and we are highly appreciative.

I have with me this morning, J. Paul Brown, who is a sheepman from the Durango area, and Robert Wiley, a dairyman from Pueblo. They are members of our State Farm Bureau board, and successful and legitimate farmers in their areas.

I am a working farmer and a rancher from Northeastern Colorado, and I am also president of the Colorado Farm Bureau. I would like to confine most of my remarks here this morning to the farm bill and credit legislation. It is such a massive subject. But I think I would like to talk and address most of my remarks about the livestock industry and the nonprogram crops in agriculture, and the effect of farm bills on those crops and those commodities.

Because I think often when we consider agricultural legislation, the forgotten people are the people outside of the chosen commodities that have all the subsidies, and although the Farm Bureau supports most of those programs, we think that they must be administered in such a way that they do not devastate people outside of the farm programs.

I think it is very appropriate that the subcommittee on livestock come to Colorado because in Colorado 65 percent of our income comes from livestock production. And so what happens in the program crops has a very severe impact on those people and has in the past.

I would like to just talk about a couple of issues that I think are important in this regard. As we go down the road and try to bring production, or production in line with the need, we have more and more programs that divert acres, that are being set aside. People are getting money for setting aside this production.

We in the Colorado Farm Bureau and the American Farm Bureau Federation level feel very strongly that if we paid people to divert acres that they should be truly diverted, and not hay, and grazed and all the other things that helped destroy people in other commodities.

For instance, we got into a controversy here last summer as to whether our State ASC committee should allow hay and grazing on diverted acres. They have chosen not to. And just to point up some of the figures there, one of the four States that chose not to, and we think this is wrong. We think it should be mandated by the Secretary of Agriculture or by Congress and not make this a political issue between States, between counties, and all the rest.

But to give you an example of what our State ASC committee came up with data to show that if we allowed hay and grazing on diverted acres it would bring in $5 million to those people that ran farm programs if they could hay and graze this land. But the other

side of the picture is they figured that it would reduce hay prices at least $5 a ton, and in doing so it would cost the hay industry around $18 or $19 million.

And so we think this is a good point. It proves that it can be highly destructive and should be—and not be allowed. The other issue, I think that we all sat through the dairy herd buyout and saw what it did to livestock prices in general. And I personally believe that the dairy farmers got less out of the dairy herd buyout than what it cost the beef industry through destruction of their price.

I was at a sale barn at Brush, Colorado the day they announced the consideration of the dairy herd buyout before they even talked about passing it, and calf prices dropped $5 to $10 just from the psychology of even talking about the program. And so these are the kinds of things that we have to watch out for when we talk about farm programs and how we administer them.

We have to be very careful how we administer farm programs so they do not have a detrimental effect on the other commodities. I would like to talk a little bit about the farm program in general. We think that it was a program that had a lot of input, a lot of compromises as was statod earlier. We think basically that it is a good program going in the right direction.

We believe that the lowering of the loan rates have made a change, made our commodities competitive in world markets, and some place ultimately we must depend on these markets. That we do not believe a way to cut, to bring expenditures in line on the farm bill is to raise loan rates. We think that this should probably be the last choice.

That we believe strongly that we should lower the loan rates and subsidize farm income through the target price system which indeed the bill does. The other issue I would like to talk briefly about which isn't in the statement, make just a few remarks about the Farm Credit System.

I think the first thing we must realize is that the Farm Credit System is in trouble because farmers are in trouble. And that is the only customers they have, and I think it is easy to go around the country and blame the system, the administrators, the structure and everything else. And indeed there needs to be probably some corrections in administration and structure.

But the reason the system is in trouble is because the farmers are in trouble. And I think that if we—we may have to have some mandated restructuring. That I think if it is done in such a way that all we do in the next couple of years is spend all our time restructuring the farm credit system, that there will be little or no assistance ever given to the farmer, and maybe we will have a good strong system in 2 or 3 years but we will not have farmers.

And so we in the farm bureau think that we have to be very careful about the restructuring. It may have to be done, but it has got to be done in such a way that the farm credit system does not spend all their time on this issue. That is one of the problems we have had the last couple of years. They went through a big restructuring on their own, and disrupted the whole system to the people that had been dealing with farmers that were changed and gone

and new relationships had to be built, and we think that is one of the reasons that the system is in trouble.

We believe that any bailout or legislation should not be cluttered with a lot of other things which will make it impossible for the system to operate as a business and be a business operation. We think that there should be not too much mandating of homesteads and the whole thing because what the effect of this, we have found in Colorado. We had this type of legislation. The effect of this is that the remaining farmers have higher interest rates and less equity to borrow from if you try to build too much of this type of thing into the system.

And at this point, I would like to close and let my companions here offer a few remarks, and then we would be glad to try to answer any questions that you might have about our testimony. Thank you very much, sir.

[The prepared statement of Mr. Propst appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much, Mr. Propst. Mr. Brown.

STATEMENT OF J. PAUL BROWN, SHEEP RANCHER, IGNACIO, CO

Mr. BROWN. I would like to thank the committee also. To preface my statement, I would like to talk about a hat that one of my sheepherders wears. And the hat, on the front of the hat there is a pretty lady, that kind of looks like Dolly Parton. And the wording on the hat says that if Dolly Parton was a farmer, she would be flat busted too. [Laughter.]

I hope that Dolly is not from Texas. I am here. I am a sheepherder, and I am here maybe not so much to represent Farm Bureau but to represent four little boys that are home taking care of the sheep while I am gone. The oldest one is 10.

I am concerned about the future of agriculture, for those boys and for other boys and girls that will be the future of agriculture in the United States today. You know, over 50 percent, over 50 percent of agriculture as you well know does not get any type of subsidy. We are talking about especially the livestock industry, vegetables, fruits, and many other parts of agriculture that do not get subsidies.

I would like to re-emphasize what Mr. Propst has said about how program crops affect nonprogram crops. And I would like to ask you as leaders in our nation to look at the programs that we come up with, and make sure that the program crops don't affect the nonprogram crops as they have in the past.

In our area and I am a neighbor to Ben, we can look across the canyon at each other's places and in our area we have a lot of hay that is grown. If hay is allowed on set-aside acres, that is going to really hurt the market and it is not fair for these types of programs to hurt an industry that spent years and years in developing markets so that—and just for those markets to go down the drain because of artificially stimulated supplies that reduce the price of their commodity.

There is other places that I would ask you to take a leadership role in as a livestock committee. Regulations, there are many regu-

lations that we can trim back on that are really useless, that can really help the livestock industry, and agriculture as a whole.

I would like to point out that the U.S. Department of Interior and now the U.S. Department of Agriculture has held back and held back and held back on allowing the toxic collar which is predator specific, which you can put on a sheep's neck that will kill killer coyotes or wolves or whatever the predator might be.

And we need to, you as a committee could take a leadership role in helping to bring into focus the tools that we can use to make our production more efficient. Taxation, I hope that you will take a leadership role in seeing that you do not tax us once we can make a little money, we can put that back into the economy rather than being taxed to death.

For my boys and for the future of agriculture, I would like to ask you to take a leadership role in balancing the budget of the United States. It is absolutely not fair to continually put the future of America into more and more debt, and we will pay for that debt one way or another, either through higher taxes, through inflation, or maybe worse, through a depression in sometime if we do not take positive steps to balance that budget.

Finally, we started a welfare system that is slowly consuming the free enterprise that has made this country great, and I ask you please to take strong steps in correcting these things. Thank you very much.

Mr. STENHOLM. Thank you, Mr. Brown. Mr. Wiley.

STATEMENT OF ROBERT B. WILEY, JR., DAIRYMAN, BOONE, CO

Mr. WILEY. Thank you, Mr. Chairman.

Welcome to Pueblo. This is where it is today, last night the junior sale, yesterday at the McDonnell-Douglas announcement, and other weeks of the year. We feel we have an up and growing community. The chamber paid me to say that.

We run a family dairy operation northeast of town about 20 miles. We have seen some tough times lately. The Farm Bureau supports the dairy price support program that will bring supplies down to demand levels, and the dairy termination program has had some bad effects on producers because we paid for two-thirds of that even though we have hardly ever been given credit for it.

For the dairy diversion program, also cost us money. The dairy industry is trying to help solve some of its problems, and this has helped bring down the tremendous surpluses that we have. The farm bureau favors a system where the price level would be automatically adjusted according to the amount of net dairy products purchased by the Federal Government.

And we feel that goal is being approached, and we kind of feel like maybe Murphy's laws apply here. If you tinker with something long enough, it will soon break down, or if you tinker with a bad thing long enough, it will get worse. And so maybe we should leave well enough alone. We are concerned about the large supply of heifers that will come on line here in the next couple of years possibly returning us to the farmer oversupply position.

Mandatory controls, as has been suggested, base programs and they have worked well in regional areas. I would suggest we go

slow on the national effort in this vein. We also support some sort of a control on the casein imports. I realize in this country there is no casein manufactured. All of it is imported, but we are seeing about 90 percent of that going into the food chain, and that is displacing 300 or 400 million or more pounds of milk, and this would help our surplus situation greatly.

I am not suggesting that we do away with casein imports entirely, but at least give us some relief on this. We also would like to see that our dairy promotion boards are united instead of having a private board and our Federal board, get them together so we aren't duplicating efforts and save that money and put more of it into promotion and research.

I would like to digress just a little from my prepared statement touching on farm programs. You know, most of us don't sign up for farm programs because we are patriotic and we want to do it just to cut out some production. We do it because of a cash flow problem.

And yet we signed up in 1985 for 1986 programs and yet we haven't been paid for part of 1986 programs. That doesn't help your cash flow situation a darn. In 1987 signup, we have seen very little of that. If we are going to have these programs, they should be funded and paid promptly and none of this dilly-dallying around with getting your money from the government. We don't like to get that, but almost a necessity anymore if you are going to be in the small grain production.

One thing on farm credit and I speak from 16 years of experience on the Pueblo Federal Land Bank Board and the Farm Credit Services Board of Southeastern Colorado, I salute, Mr. Chairman, your amendment that will cause restructuring of farm credit. I think we need more restructuring, cut out a lot of the excess people and rigmarole that has to go on, and get back to basics of serving the farmer and rancher borrowers who are actually the stockholder owners of the system. I think your amendment in that bill will do this, and I thank you for it.

Mr. STENHOLM. Thank you, Mr. Wiley. Mr. Chairman.

The CHAIRMAN. Thank you very much. I just want to verify the sort of document. Your testimony is that cattle are doing away, commercial cattle business. Prices holding at least with a wee bit of maker. Homemakers are not out picketing the supermarket that prices are too high. The herd is at a manageable level, so basically, we are at a holding level pattern. That will hold for a while, it will be good.

Is that basically it?

Mr. PROPST. Well, I think the cattle industry has paid a tremendous price to get where they are. And I think if we go back to the last 5 or 6 years, about the time when we would start to get supply and demand, ranchers cutting back herds, we had one thing or another that affect that.

I think we were about there a couple of years ago, and the dairy buyout brought more things on the market, and depressed the price. But we are there now, and we think if we do something with other farm programs to affect this, we don't think it is fair.

The CHAIRMAN. Don't mess up, that is what you are saying. Good. Thank you. Mr. Brown, you didn't mention it, but I hear

from many people saying that the Wool Act is working fairly well and we manage to keep it in the act. It is a national security interest and it is working fairly well.

Mr. Brown. Yes, sir.

The Chairman. And Mr. Wiley, dairy in spite of the little problem with the buyout, but the program is basically gearing to what it was intended to do. The surplus is down. The cost is down, way down, and big chunk of that cost came back from the producer himself. We understand all of that.

But basically the intent and what was intended from the producer, from the need of the country, from the Congress is basically coming about. Cost is down. Surplus is down. Price adequate so you don't have—part of what we do is that the homemaker is not out picketing in front of the supermarket. That is very important, and that isn't happening now.

But basically that is your testimony in those three areas. Thank you.

Mr. Stenholm. Mr. Campbell.

Mr. Campbell. Thank you, Mr. Chairman. Maybe a comment or two and then a couple of questions too. First a comment to J. Paul who is both a friend and a neighbor of mine down south of Durango. I think you know me well enough, Paul, to know that, when you talk about us being leaders, I have never considered myself much of a leader in the agriculture field.

But I certainly recognize the problems dealing with people who are leaders, and that is one of the reasons I asked to be on this committee because in Colorado we haven't had anybody on the Agriculture Committee in over a decade as you know.

But if it is really an overwhelming problem as I get back there as a freshman, not having a lot of background in it, and certainly the technical questions are complicated. The factionalism between different groups and individual farmers make the process much more complicated and difficult to find an answer.

But I just wanted to submit to Mr. Chairman, and for the record, that the reason I am in this game at all is because of those four boys you mentioned. I have a very strong belief about the family, and know when the family farms collapse, the families collapse. And I don't think it is just the future of agriculture that we deal with when we talk about family farms collapsing. We are talking about a major social problem in the collapse of a nation, or at least the partial collapse of the nation.

So I just wanted you to know that it is your family and families like yours that I have known for years that make me want to go back there, and even though I don't have a lot of the answers, at least I feel that by providing a conduit where people like you can have direct access, that will be a benefit to all of us. And I just wanted you to know, you do have a wonderful family, and they are great kids, and I look forward to seeing those kind of kids grow up to be proud of their heritage and to be proud of the kind of lifestyle and home that you built for them, and hopefully will be proud in staying with the land. Thank you for appearing.

Maybe a question or two. As I understand it, Keith, if I didn't, maybe it went by me a little fast, but as we look at the dairy herd buyout in retrospect, I am familiar with the complications the

aping, and how it drove the cattle prices right, you know, virtuly to the ground.

As we look at it over a period of time now, do you think the benefits of that outweigh the detrimental effect? You see prices of beef cattle coming back pretty well now, and I think people that raise commercial cattle are doing better than they have for years right now. Would you like to comment on that?

Mr. PROPST. Well, I think it is a highly disruptive program. I think the supplies would have come, but I think they would have come on a more natural basis. I think the psychology of it was what the most devastating. You know, when the Federal Government announces a massive program, the markets do not know how to react and so they don't know how to react, they usually react bad.

And even though we look back, and we say, well, gee, whiz, there wasn't that many more dairy cows that came along, and on and on and on. I mean to justify the program, the fact still remains that people that were selling cattle in the midst of this, many of them are broke and gone and they aren't here today to take advantage of whatever benefits may have come out of it by reducing the total numbers.

I think it is just flat wrong to design programs—let's take the dairy program. Those producers were paid to produce milk over a period of years through some kind of a price support program. And so they benefitted from the price program, but then we paid those very same producers $300 or $400 a cow plus a base to get out of the business, and down the road their neighbor had to sell their range cows for $300 or $400 to try to reduce a note, and it didn't even touch the interest much less the note and they are out of business and gone.

I think programs like that—I am not against dairy programs or grain programs. I just think that we have got to be extremely difficult—in the administration of these programs we don't kill off people who are out here trying to make it on their own without the direct benefit of the farm subsidy.

Mr. CAMPBELL. Well, talk about the administration of that program. That was one of my understandings just talking to people that were affected. Because it was administered wrong and it was done too soon is what created that. Perhaps none of us do.

You also mentioned the portion in this bill that we are dealing with now, although you didn't say it in the same context I am going to, but it dealt primarily with the right of first refusal.

Mr. PROPST. Of which bill?

Mr. CAMPBELL. Of the revision to farm credit bill. Would you say that that is a position of the Farm Bureau, and you are not particularly supportive of that clause in there that gives the first right of refusal to the people that lost their land, or that system it sets up of relatives or former farmers and so on?

Mr. PROPST. I just think that—just viewing the situation in Colorado from the legislation we have had in the last several years, and much of it was needed and probably the banking industry asked for it by some of their unreasonable approaches over the last several years.

But the fact remains that through chapter 12 legislation through the bill we have in this Colorado legislature, plus the clear title legislation and all these things that many of our lending institutions, they don't have to come into agriculture. They can go somewhere else. Many of them are withdrawing from agriculture, going back to Denver and loaning to other people, and that puts more pressure on the Farm Credit System, and on and on and on.

I just think that we have to allow the Farm Credit System to operate as a business when we are through that we do not clutter it with a bunch of stuff that would make it impossible for anybody to run. I don't care who he is. By making it—huge delays, and how they can get their money if people can't pay off their notes and on and on and on.

I don't think that anybody can run that type of business, and I think that we are in a period of stress with farm credit. We have to infuse some money into it, but somehow we got to get that money to the farmer and not spend all our time reorganizing. Certainly, the system probably needs some reorganization. I haven't worked in it directly that long.

But all I know is if we spend another 2 years reorganizing that most of the farmers that need help will be gone and some of them that could be saved by spending time with them, instead of going to Wichita and figuring out how we are going to develop a new computer system or something else in the reorganization plan, I think many of those would be gone.

My point is if we are going to have reorganization which I guess we are going to have to have to get Federal bailout, it must be done in such a way that people aren't spending all their time servicing the reorganization plan and not the farmers.

Mr. CAMPBELL. Thank you.

One other comment, Mr. Chairman, if I might, because we were urged to do something about the terrible Federal deficit and balance the budget. For those of you who might be interested, Congressman de la Garza was the first prime sponsor of a balanced budget amendment clear back in 1965 long before it was fashionable or even recognized that it was needed.

And at the time in talking to him this morning, he said people just sort of laughed at him when he wanted to do that, and now he tells me that every freshman that comes in there comes to him and asks him if he wants to be on their balanced budget amendment.

We just reintroduce that with Congressman Stenholm being the prime sponsor, and what did we get?

Mr. STENHOLM. We now have 232 cosponsors..

Mr. CAMPBELL. 232 cosponsors for that resolution. All three of us were cosponsors. You might like to know that. One other comment too.

When we talk about balancing the budget, we are getting into a whole new complicated affair that just does not deal with farmers as you know J. Paul. And I might tell you as a freshman, it has been particularly difficult on me being an elected official back there to see the endless stream of Americans that come into my office with what I call a double standard. And that double standard is lower my taxes, balance my budget, but I need $10 million more for my program.

And if we have representative government, you have a choice when elected of saying, I am not going to help you get any more money, and they will immediately say, well, you are not sensitive to our communities and our needs, or you can say, I am going to help you get the money, and you are immediately insensitive to the balanced budget.

So it is really a very tough position to be in as you probably know. One last comment that I would like some help from you, Mr. Chairman, is that we did deal with the casein problem this year, Mr. Riley.

And as I understand it, one of the problems we have is it has not been designated as an ag product up until this time. Is that right, under our international agreements?

Mr. STENHOLM. That's correct.

Mr. CAMPBELL. And we were trying to get it redesignated as an ag product so we could deal with it.

Mr. WILEY. It's a manufacturing product right now.

Mr. CAMPBELL. But I don't know where that is. I don't know if we have had that redesignated or not at this point.

We are still working on that. We have had some meetings with Ambassador Yeutter, the USTR, as you might know. We are working on that, as well as working on this tremendous influx or potential influx from New Zealand of live lamb that are going to affect our wool growers.

Mr. STENHOLM. I could not agree more with you on your first priority, the balanced budget and deficit spending.

It is a direct result of borrowing more than your cash flow could sustain. And the difficulty we are having is to learn to live in this new international market.

Some folks suggest to this committee that we ought to draw a little circle around America and not worry about export markets and imports. This Member of Congress believes that would be the beginning of the end of agriculture, particularly family farming as we have known it in the past.

Let me comment on the dairy whole herd buyout. I had 300 feeder steers and stockers on wheat pasture, and I personally witnessed the decline of the market. I made the decision to go on to the feedlot in the belief that the problem at the time was administrative, and it was not a function of the legislation that we had passed, and it turned out to be correct.

But I have looked some young men, Mr. Brown, just like you in the eye in my district that went broke as a result of that 3 or 4 weeks in which we had an administrative impasse. And it makes this job sometimes not so much fun because hindsight is always 20-20. But the dairy whole herd buyout was a compromise program agreed to by all parties.

Moreover, this committee is going to recognize those difficulties when we look at what we do in the future.

Is this along the lines of what you are saying?

Mr. PROPST. When I was talking about restructuring, I was talking about restructuring of the total system. Isn't that what the farm credit bill mandates? Going from 12 to 6.

Mr. STENHOLM. There is two restructurings. Encouraging the local PCA and the local land bank in working with the individual stockholders.

Mr. PROPST. Well, we are 100 percent for that.

Mr. STENHOLM. OK.

Our amendment suggested that we no longer must have 12 district banks in order to deliver the service which is credit to the local borrower at the cheapost possible price.

Mr. PROPST. Well, I think that probably the restructuring is necessary, but my point is what is going to happen? Let's say that we do mandate, and it goes through—proposed. Don't you think that is going to be a tremendous time and effort just on the part of the people working in the system to accomplish a restructuring in the next couple of years?

And my point is, even though it may be a great thing at the end, and be a better system, in this interim period, are we going to let—just like the dairy herd buyout, are we going to let more and more farmers go out the door broke because nobody had time to look at their loan, restructure it. They are all busy servicing the system, making it a better system so it will be better down the road.

Mr. STENHOLM. I totally agree with your concern. Are you suggesting that we should not restructure at this time? Or are you saying, restructure but be careful that you don't spend too much time on that to the detriment of the borrower? What are you saying?

Mr. PROPST. Well, I am saying that we may need restructuring, but Congress can't say do it overnight before you get the money.

Mr. STENHOLM. We are not doing that.

Mr. PROPST. But anyway, just to make my point is that if somebody says, and I don't know what the bill says for sure, you know, it is a massive bill, but if it says that we are going to have to go from 12 to 6 and do it 1 year before you get any money to the farmer, all I am saying is in that year we are going to lose a lot more farmers.

And at the end, even though we are going to have a strong system, a better system, it will be better all the way around because all the weak farmers will have been gone because nobody had time to service their loan, they are always going to Wichita or somewhere trying to decide how to restructure the system.

Mr. STENHOLM. You are going to be very pleased with the technical amendment to the Stenholm amendment.

Mr. WILEY. May I respond?

Mr. STENHOLM. Mr. Wiley.

Mr. WILEY. I think especially in the ninth district that either they restructure the district bank and get it into a service mode, or we are going to be in worse trouble than we are now. And a lot of this money drain will disappear with that restructuring.

The structure is there to loan the money. Just get rid of some of the red tape and the layers of bureaucracy, and it will go ahead and the farmers will get their money. I think this is a needed thing and it needs to get into place as quickly as possible.

Mr. STENHOLM. One brief question to you, Mr. Brown. Do you support the effort of this committee found in the trade bill to have imported lamb considered in the same manner as beef and mutton?

Mr. BROWN. That part of the trade bill I do.

Mr. STENHOLM. I believe I have no other questions at this time. We appreciate your testimony. Your points are well made and well taken. There is some excellent information that you have presented for this committee today, and we appreciate very much you taking the time to appear before us today.

We would like to call the next panel. John Stencel, Charles Klaseen, Vernon Franke, and Elmer Johannsen. Please assume your places at the table.

Mr. CAMPBELL. Mr. Chairman, if there is no objection at this point in the record, I would like to submit written copies of testimony from the San Juan Basin Farm Bureau and Phyllis Snyder's written statement. Mrs. Snyder and her husband own and operate a farm north of Cortez, Colorado, and I would like to submit those two written testimonies.

Mr. STENHOLM. Without objection, those testimonies will be made a part of the record.

[The prepared statements of San Juan Basin Farm Bureau and Mrs. Snyder appear at the conclusion of the hearing.]

Mr. STENHOLM. We will hear first from Mr. John Stencel, president, Rocky Mountain Farmers Union. Mr. Stencel.

STATEMENT OF JOHN STENCEL III, PRESIDENT, ROCKY MOUNTAIN FARMERS UNION

Mr. STENCEL. Thank you, Mr. Chairman.

My name is John Stencel, and I am the president of the Rocky Mountain Farmers Union, a general farm organization which has more than 16,000 farm and ranch families in Colorado, Wyoming, and New Mexico. I would like to add that we have just over 12,000 farm and ranch families in Colorado.

First of all this morning, I would like to thank you, Mr. Chairman, and distinguished members of the subcommittee including our own congressman, Ben Nighthorse Campbell, for holding this hearing in Colorado. It has been a long time since we had a congressional field hearing on agriculture in Colorado, and this makes it a very special event for us.

We have another special event going on around you, and you have been participating in it, and we appreciate your being here at the Colorado State Fair.

Immediately before Labor Day recess, you passed a bill pertaining to the Farm Credit System, H.R. 3030 which contains many features we commend you for. And I would like to add that I think we are 95 percent there in terms of what has to be done in the farm credit area.

Provisions on stock protection, borrowers' rights, debt restructuring, first right of refusal, homestead exemption and others we feel are the makings of a successful restructuring of the ailing Farm Credit System.

However, for any rebuilding of the Farm Credit System to occur, there must be an infusion of capital sufficient to make the system viable again. Without sufficient funding, all of the other provisions of the bill would be virtually moaningless because the system will fail.

Our members feel very strongly that any interest rate buy-down included in the farm credit restructuring should extend to all producers not just a select few. The benefits of congressional action on behalf of the Farm Credit System should be equitable to all borrowers.

In addition, if a board is created to oversee the capital infusion, and a secondary ag lending market, our members feel there should be farmers and ranchers represented on that board. The Farm Credit System was intended to be a member-owned cooperative, and if it is to remain true to the cooperative nature, there should be bona fide farmers and ranchers on this board.

Of the seven Presidential appointees, we feel four should be farmers and ranchers. Local control is also very important to retaining the cooperative nature of the system. We commend your efforts at securing local control on lending decisions, but by closing down the regional banks and consolidating them into six regional service centers, it is our feeling that you will be consolidating power in the hands of the Farm Credit Administration, a move which would work against the initiative for local control.

The Farm Credit System in the 6 years of the farm crisis has accumulated over 2 million acres of land in inventory acquired from broke farmers. The Federal Government through the Farmers Home Administration has also acquired similar acreages of farmland. This land should be redistributed to people who will live on the land and establish viable new farming operations. For young and beginning farmers, depressed land prices offer the opportunity of a lifetime to buy in at the bottom.

The prospect of survival for many farm communities depends on getting the land to those who will be part of the communities' future. The time has come to not only refinance and restructure farm credit, but also through a new homestead act to repopulate and resottle rural America.

H.R. 3030 with suitable modifications and sufficient funding could solve the short-term problems of the Farm Credit System. However, in order for any Farm Credit System to work properly, farmers and ranchers must have parity of income. Parity of income can only be achieved if farmers receive parity prices for their commodities.

The health of the agricultural sector of the American economy depends on parity prices for producers. This includes, of course, the livestock, dairy and poultry producers. Historically, livestock producers have not received parity prices for their products unless grain producers are also receiving parity prices for feed grains.

Cheap grain inevitably leads to cheap feed, to cheap beef, butter, milk and poultry. The best, cheapest, and most effective way of achieving parity prices for farm commodities is supply management. There is a proposal before you that will boost farm prices at the farm gate while at the same time reducing the government expenditures on agriculture.

The bill is the Save the Family Farm Act, sometimes known as the Harkin-Gephardt bill, and I know you will give it some study and consideration. At our last convention, the members adopted a special order of business which states "immediate action is needed

to reverse the failed policies contained in the 1985 farm bill and its predecessors."

You in the 100th Congress could immediately enact the Harkin-Gephardt Save the Family Farm Act. If enacted by Congress and approved by producers voting in referendum, this program will institute policies which will enable producers to earn a profit in the marketplace while mandating supply management production.

The important provisions in this act supported by Rocky Mountain Farmers Union include, establishing commodity loan rates at 70 percent of parity, initially with the rates increasing by 1 percentage point per year until the year 2000, requiring the Secretary of Agriculture to establish a national marketing quota for each commodity based on demand estimates, initiate marketing certificates to be used in selling commodities off the farm, and the establishment of a national farmer disaster reserve to which each producer will be required to contribute.

A large step in the short term for achieving parity prices for farmers would be a repeal of the Findley amendment. As you know, the Findley amendment allows the Secretary of Agriculture to arbitrarily and unilaterally lower the loan rates on commodities by as much as 20 percent below the statutory levels set by the 1985 Food Security Act.

A repeal of the Findley amendment would provide farmers with a more equitable price and in addition provide about $4 billion in budgetary savings, well more than the budgetary reconciliation target of $1.2 billion. These savings would accrue because raising the loan rate would decrease the amount of deficiency payments made to farmers.

Since the loan rate sets the floor of the market price, raising the loan rate would raise the market price and lessen the gap between the market and the target price. For a supply management program to work and work well, cross-compliance is a necessity. At the present time, we have States that are allowing haying and grazing of set-aside acres and States that are not allowing this practice. This puts farmers in the nongrazing States such as Colorado at a competitive disadvantage.

We would prefer that all States disallow haying and grazing of set-aside for conservation-use acres. If some States are determined to allow haying and grazing, all should be allowed to hay and graze without penalty in order to insure equitable treatment for all farmers.

Another issue in Colorado concerning livestock producers are grazing fees and multiple-use of public lands. Our policy written by our member states:

We believe that public lands must remain open to fulfill the multiple-use concept. Public lands are an annually renewable resource harvested by range, sheep and cattle operations.

We recommend that Congress maintain its commitment to multiple-use of public lands by continuing the current grazing fee formula enacted in 1978 which allows stockmen to utilize the renewable rangeland resource.

To maintain viable ranching operations, stock men must be allowed to travel by motorized vehicle, control predatory animal populations, continue range improvements, develop water resources and make sound economic decisions. In addition, our policy states we urge Congress to control the importation of livestock and livestock products which is causing serious damage to our domestic industry.

We recommend that Congress incorporate the following steps to protect American livestock producers as well as consumers. Investigate the impact of pricing practices of foreign countries on United States markets, require conspicuous labeling showing point of origin, date of kill, whether it was frozen, and the date it was subsequently frozen, impose countervailing duty to offset subsidies paid to foreign livestock producers, require that 100 percent of all meat imports be inspected and meet the same sanitary and quality standards as American produced red meats, require that the amount of meat imports be reported weekly the same as the weekly slaughter report.

Furthermore, our national policy states:

> We urge price stabilization programs modeled after the wool incentive program for all livestock. We also urge the USDA to prepare guidelines for computer based livestock marketing system. We feel that livestock producers should be able to take advantage of some of the same marketing techniques that grain producers use including collective marketing and marketing cooperatives.

Thank you very much for this opportunity appear today, and I would be willing to answer any questions when we all get through.

[The prepared statement of Mr. Stencel appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you, Mr. Stencel. Next, we will hear from Mr. Charles Klaseen, Crawford, Colorado.

STATEMENT OF CHARLES KLASEEN, COW/CALF OPERATOR, CRAWFORD, CO

Mr. KLASEEN. Good morning, Mr. Chairman, and our Honorable Ben Campbell from our district.

I am Charles Klaseen. I am a cow/calf operator from Crawford, Colorado which is in Delta County on the western slope. I run 500 cows, about 200 yearlings and irrigate about 2,000 acres of hay and grain pasture.

I feel honored to have this opportunity to testify before this distinguished ag group. As you know, agriculture is in the worst crisis since the 1930's. I was nearly a victim of agriculture's lack of comprehensive and effective agricultural policy as well as its poorly conceived foreign trade policy and Federal Reserve monetary policy.

All of these policies are tearing the heart out of the principles that built America's free capitalistic form of business. First of all, our agriculture program is too expensive for the taxpayers and does nothing to control the production. Any farm program should use supply management both to save tax dollars and to give the farmer a fair return on his investment.

I think this committee should look at a policy similar to the Harkin-Gephardt bill. The 1985 farm bill does nothing to control the production or get a fair price to the farmer. Secondly, we cannot have a free trade policy for the United States. Our farmers can't compete with the farmers in underdeveloped countries unless our standard of living falls to the level of theirs.

The European Economic Community sees the value of protecting their farmers. We should do something on a similar basis. Third, agriculture does not have a decent source of credit. I am one of

those few fortunate ones in my area to get a loan recently, and I went through 14 months with no credit in the process.

If I hadn't have had extra assets, I wouldn't have been here. I am the only farmer in Delta County to successfully obtain an FmHA guaranteed loan. Because of the lack of available credit, we have lost five to six big family operators plus several smaller farmers and ranchers in my area in the last 18 months.

Today there are 9,000 to 10,000 fewer head of cattle in Delta County and surrounding and parts of Montrose and Gunnison County in my area. This is due to the loss in the last few years of family operations that have been in these families for two and three generations. All are within 40 miles of my place.

The guaranteed loan program is not working in our area. I feel this is due to two major factors. The regulations are far too complex and the amount of paperwork required is a nightmare. During the 14-month period it took to get my loan processed, I had five different loan officers at the Farm Credit Service. This made the process all that more difficult.

There is a lack of cooperation between lending agencies. The program is designed to work between FmHA farm credit and commercial banks. If all lenders do not work cooperatively, the program is bound to fail. I had real good response with my local loan officers. The trouble came from the top, from both FmHA and the farm credit.

When credit is available, it is too expensive in most cases. Any bail-out of the Farm Credit System should include interest rate reduction to the borrower. This should be extended to all borrowers. We have got borrowers that are just barely hanging on now that they have a loan, but they need a better rate of interest on their present loan.

In our area hay prices have dropped to the lowest level in several years. Pasture will barely pay the water assessments. Feedgrain producers are suffering because of low prices. Cheap grain eventually makes cheap cattle. Right now the cattle people are getting by, but if grain prices continue to drop, the cattle prices will follow.

Now it is time to worry about the people on the land rather than the consumers. If we break the people on the land the consumer will pay and pay dearly. Agriculture is one of the few industries we have that generates new wealth. If we break our agriculture industry, the entire national economy will suffer.

Thank you for this opportunity to present my views.

[The prepared statement of Mr. Klaseen appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much, Mr. Klaseen. Next, Mr. Vernon Franke of Akron, Colorado.

STATEMENT OF VERNON C. FRANKE, RANCHER-FARMER, AKRON, CO.

Mr. FRANKE. Thank you, Mr. Chairman.

My name is Vernon Franke, and I am a cow-calf producer and a grain farmer from Akron which is in northeast Colorado. I run 450 cows and farm 1,200 acres, raising wheat and feed grains. As a cow-calf operator, I am concerned with the commodity futures market.

Our Rocky Mountain Farmers Union policy states:

> There should be an investigation into the total marketing system, including the commodity futures markets and the activity of the commodity futures traders and speculators on both crop and livestock prices, leading to laws which will curb abuses in the current system.

I feel that the futures markets are not helpful to the family-size cow-calf operator. The futures trading encourages speculation and price manipulation by large volume traders. I am also concerned with the concentration of ownership in the meat industry.

Recently, Con-Agra, a giant food corporation, purchased Montfort of Colorado, a large cattle feeding and meat packing and processing company in eastern Colorado. Further concentration of power within the meat processing industry will lead to price fixing, monopolies in both buying and marketing, and increased financial pressure on small and medium-sized cattle raisers and feeders.

Antitrust laws should be vigorously enforced in the food industry and investigations should be undertaken to stop unfair trade practices by large corporations in the food industry. Credit is a problem in the cattle industry as well as grain producers. Farm Credit Service has not reduced their interest rate significantly to berrowers in eastern Colorado.

Our interest rate is still about 11 percent which is too high to enable a producer to obtain a reasonable margin of profit. Any bailout of the Farm Credit System should include an interest rate reduction for all borrowers. It should not just be a bailout for the bondholders.

One of the problems we face in the cattle industry in Colorado is brucellosis eradication. Our National Farmers Union policy states, "Recognizing that brucellosis continues to be a problem for livestock producers, Congress should provide adequate funding for the eradication of this disease." Brucellosis could be and should be entirely eradicated throughout the United States. This would be cheaper in the long run than eradicating it in one area, and through a lack of vigilance allowing it to flourish in another.

The eradication program should be applied uniformly in all States. Imports of meats should be controlled so as not to depress the livestock market. Our Rocky Mountain Farmers Union policy states, "We strongly urge Congress to pass legislation to label the origin of all imported meats. All imported foods must come under the same high standard of production and inspection as the domestic meats." Allowing imported meats to be inspected at lower standards puts our domestic meat producers at an unfair competitive disadvantage.

In addition, lower standards on the import puts our American consumers' health at risk. Any standards applied to imported meat should be included, pesticides and other chemical contamination standards as well as quality grading.

Thank you for giving me the opportunity to express my concerns to you today.

[The prepared statement of Mr. Franke appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you. Next, Mr. Johannsen.

STATEMENT OF ELMER J. JOHANNSEN, DAIRYMAN, WELLINGTON, CO

Mr. JOHANNSEN. Good morning.

My name is Elmer Johannsen from Wellington, Colorado which is in the northern part of the State. I operate a family farm there and have been in the dairy business for some 40-odd years some of them being more odd than others. And we presently have a herd of over 200 milking cows. I am a member of Western Dairymen Cooperative, Incorporated and Rocky Mountain Farmers Union.

Currently, in the United States we have a budget deficit of over $120 billion, and we have a trade deficit of over $140 billion. Estimating costs at $140 million per billion pounds of CCC purchase of milk, we have a dairy program that is costing between $1 and $2 billion. We need a dairy program that accomplishes a reduction in milk supply, reduces the budget deficit and also helps with the trade deficit.

I advocate the supply management concept. Farmers Union policy states:

> Farmers Union supports the concept of a long-term supply management for dairy. We support implementation of either a voluntary or mandatory supply management program anytime CCC purchases exceed 5 billion pounds. A mandatory program would go into effect with a simply majority vote of individual dairy producers.
>
> If a mandatory program is in effect, we recommend that the base be set at the preceding year's production history. Producers who participated in the dairy termination program would have no base history.

I personally advocate a program somewhere between the voluntary and the mandatory stages in which stability would be provided by supply management but provision would be made for enough flexibility to produce for export markets.

Specifically, I favor an allotment system with the following recommendations. Cap the value of allotments at a reasonable figure. Allotments are a vehicle for setting production levels and transferring the same. They are not a stock market item.

Set aside 15 percent of allotment transfers to be offered to new and or young producers. Establish a dairy board or other similar organization as a watchdog agency, and where no co-op is involved, the board could handle the transfers. Regionalize allotments through transfers to allow production in areas where needed. It is easier to transfer paper than fluid milk.

Provide for allotment adjustment annually to keep allotments in use. This would be an ongoing annual process. Underproduction would result in a loss of percent of the base. Prices should be established on a two-level pricing system based on the domestic and an export value. If the price at the export level is attractive to a producer, allow him to produce at that value. This milk would not be subsidized in any way, and shouldn't cause any problems with international trade.

Domestic value should be set at no less than 71 percent of parity. Further, the USDA dairy export incentive program to strive for export markets. Administer the program through a Dairy Commission elected by actual producers, and finance it with a milk payment check-off. If we can take care of our own program and finance it, hopefully, we will have a long-range program not subject to pressures of changing administrations in government.

We have heard the argument that allotment programs would discriminate against new and young producers coming into the industry. I think these seven points address this concern, and I submit that the present program certainly makes it impossible for a new producer to start and survive with threats of lower prices, uncertainty and changes in program, is not an incentive to a beginning producer.

In addition, we must re-evaluate the allocation of dairy research funds. In 1986, of the $26 million the USDA allocated, $24.5 million went for production research. Only $1.5 million went to product development. Long ago we learned how to overproduce. We are still novices at developing a product and selling it.

The dairy termination program was successful but temporary. We now need a continuation that would be cost effective. We know we have enough marginal cows in this nation to do away with any surplus. The allotment program would accomplish this reduction. No producer will milk marginal cows when faced with a production limit.

The present program provides for a price cut of 50 cents a hundred weight if CCC projected purchases are expected to exceed 5 billion pounds. Price cuts should not be implemented if CCC purchases—less import milk equipment values—are less than $5 billion.

For example, if projected CCC purchases are 5.5 billion pounds and imports are 1 billion pounds milk equivalent, then this should be considered as an actual surplus of 4.5 billion pounds.

An allotment program such as the one I have suggested will increase dairy farm income, decrease government cost, and address the problems of market instability and program inconsistency. It will allow for the opportunity for new young producers to enter the industry as older ones leave. It would also provide the opportunity to move forward in our efforts in controlling increasing budget deficits and trade deficits.

Thank you for the opportunity to come here and express my views.

[The prepared statement of Mr. Johannsen appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much.

Mr. Chairman.

The CHAIRMAN. No questions, Mr. Chairman.

Mr. STENHOLM. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman. Kind of batting around between the notes I am taking here. Maybe a couple of questions for John Stencel.

Perhaps that bill as you know, H.R. 3030, is a very complicated bill. Maybe I am not reading it the same way you are, but as I understand it, particularly with Congressman Stenholm's amendment, when you talked about centralizing control and the danger of reducing the number of banks, as I understand his amendment, it really centralizes the bank services even though the number is centralized. It doesn't provide the central bank with a lot of authority other than the centralized services.

But by cutting down the overhead and decentralizing the control, putting more authority in the hands of the local elected boards, I

view that as good. Perhaps we read that a little differently, and I just wanted to make that comment.

You also made a comment about the Harkin-Gephardt bill, and believe me I have heard plenty about that as all of us have. It makes some major changes as you know, structural change that is virtually different than anything we have ever done before to my understanding in American farming.

I just don't know from the comments and letters that I have received that the American farmer is ready for that much change because some of the letters that are in opposition that I get, they see it as a method of assigned growing that is really opposed to the free enterprise system.

I didn't know if you were getting the same comments. That is what I am hearing. An awful lot of people just know we are in terrible trouble. They don't want the government to assign them what they can grow and how long they can grow it.

One other thing too I wanted to mention. You said something about grazing fees. As you know, there was a movement back there I think on behalf of urban legislators to raise the grazing fees this year. You are probably aware of that. Some of us did cosponsor a resolution to freeze the formula at last year's level, and I wasn't sure if you were aware of that, and hopefully that formula is going to be frozen.

But as we move forward, there is no question in my mind, the mood I am getting is that rural legislators, and rural congressman are getting fewer and fewer as the urban population builds. And as those urban populations build, the resentment about low grazing fees on Federal land is also building particularly through the environmental community.

I just wanted you to know, I don't know how long we can hold on to that structure, but some of us are determined to keep the present formula as long as we can.

Thank you, Mr. Chairman.

Mr. STENCEL. Mr. Chairman, may I respond quickly?

Mr. STENHOLM. Yes, please.

Mr. STENCEL. Perhaps they don't understand everything that is in the Stenholm amendment.

Mr. STENHOLM. That makes us even. [Laughter.]

Mr. STENCEL. But I would like just to comment on Congressman Campbell's remark about the restructuring of the system. We have watched the PCA and the Federal land banks at the local level be consolidated, and we have lost a lot of local control because of that consolidation. Farmers have to travel many more miles to get a loan.

And if we consolidate at the district level, we have less people from the local levels on those district boards. That is our primary concern. That there will not be as many farmers and ranchers involved in making the decisions. Like I say, I may not understand, Mr. Chairman, your amendment.

Second, Congressman, when it comes to the Harkin-Gephardt bill, there are some new provisions that perhaps have never been tried before, but let me just back up to the early 1950's. We have done just about everything and anything when it comes to farm programs since 1933 when farm programs were put in place. And

there was a time when we were able to put parity programs together and they were very inexpensive to the American public. And it seems to me that we can do something similar today if we work hard enough at it.

That may mean changing the kind of program we have and making a drastic change, but I think it needs to happen because we cannot continue to have the prices that we have if we are going to keep family farmers and ranchers on the land. And then last, Congressman Campbell, we appreciate what you did to freeze the prices on public lands.

Mr. STENHOLM. Let me just comment on the point of the so-called Stenholm amendment and why I say that makes us even. Our amendment was a concept. In a meeting just over the weekend, Chairman de la Garza attended and provided some extremely important leadership, and we have now begun to put the meat on the bones of the concept.

And the concerns that you and others have addressed here today are certainly, as I like to put it, West Texas tractor seat common sense concerns. You are talking about the common sense approach and local control.

The agricultural bankers, particularly the banker that only loans to farmers is going to eventually be in trouble too.

And that is the concept that we are pursuing now. Allow the local directors to make the decisions within the concept of fiduciary responsibility and provide the proper oversight over the Farm Credit System.

Now, it is interesting because all that this Committee has heard for the last 6 months is the need for local control. We give an amendment that gives local control and guess what the folks in Texas have been telling me, and I hear a little bit of it here today. "We didn't want that much local control." [Laughter.]

Now, somewhere in between is where we want to be. You say you agree with 95 percent. That is remarkable as far as I am concerned. Anytime we get 95 percent agreement on anything, that is success.

The 1985 farm bill, you don't like it, but it is one of the best tools that we could possibly have ever enacted. Today, we have got all—particularly the European Economic Community—willing to sit down and begin negotiating on how to solve global overproduction problems. I totally agree that we must have effective supply management.

No business can exist without effective supply management. But there is different kinds of supply management.

Thanks to the 1985 farm bill, we are now putting the pressure on world governments, particularly the European Economic Community. We are serving notice to them that we are no longer going to be the sole supply managers of the world.

We have got to have some help from other countries. It makes no sense to have the Colorado farmer cut back his production and transfer it to Canada, France, or Germany.

We now have the GATT negotiations taking place in Geneva. It has put American agriculture in the strongest possible position to negotiate if our negotiators will just do their job.

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I would hope that in future testimony and future statements, we in agriculture would accentuate the positive while acknowledging you can't be for a balanced budget and expect to have these kind of expenses in farm programs.

I was very happy to see you point out the concern around the cattle futures market because that is one that I have, and this committee will be looking at.

The House Agriculture Committee has requested a study of the futures market and its implications in the red meat industry. That study will be completed soon.

The CHAIRMAN. It is due in a couple of weeks.

Mr. STENHOLM. At that point in time, it is my hope that this subcommittee and the Conservation and Credit Subcommittee will hold hearings regarding the findings of the study.

You also point out a concern that I have, and that is the concentration of the meat industry. And I ask you, and all the producers in this audience today, do we really want to do away with the futures industry and allow the total pricing of our product to be determined by three major packers controlling 85 percent of the cattle slaughter industry?

Mr. Johannsen, in listening to your suggestions on the kind of supply management program needed for dairy, you and I concur on several points. I like your approach because it is a middle ground approach between the two extremes.

As I have indicated earlier, I believe very strongly in effective supply management. Show me any businessman or woman in Pueblo, Colorado that does not practice supply management and I will show you a broke business. The question is how you do it. We are in an international market today and it is difficult.

Mr. FRANKE. Mr. Chairman. In regard to the commodity futures, we had some prior testimony, the fact of the dairy buyout dropped the price $5 to $10 on cattle in 1 day. That reaction was not in the sale barn. That reaction was on the futures trade. And they looked on the board and saw what happened there, and it happened at the sale barn.

That is what we are talking about on speculation and manipulation that occurs.

Mr. STENHOLM. Very good point.

Thank you all.

Mr. STENCEL. I just want to say, Mr. Chairman, that I would like to write a letter to you with a couple of answers to some of the remarks that you made concerning the lower interest rates, and also the cost of farm bills. Thank you very much.

The CHAIRMAN. Let me, Mr. Chairman, if I might. I think we need to mention in relation to the cost of the farm bill that American agribusiness should be proud of the fact we have heard this about balancing the budget, and that Congress has basically accepted the discipline.

I can categorically state to you about balancing the budget. As a matter of fact, I think we would have come fairly close to a balanced budget had we not deviated with a couple of tax measures that lost income into the Treasury, but that is philosophical and that is in the past; we are here and we can't go back to that.

But the discipline has set in. We were mentioning this morning that the first bill I introduced, in January 1965, was a constitutional amendment balancing the budget. We had it in Texas, and I felt it was good enough for Texas, it ought to be good enough for the good old USA.

I could not get a hearing. I could not get anyone interested. There were not 10 people interested. Today every freshman member I bump into says he wants to join my balanced budget amendment. So we are getting there. But what I wanted to state was our committee has met the responsibility imposed upon it through the budgetary process, and in the past 5 years, we have contributed over $25 billion in savings.

We have met every year, at what the Budget Committee has told us is the figure that we have to come up with, and we have done it. This year, that is one of the reasons that Chairman Stenholm mentioned about we are going to have to go to the floor with the Farm Credit System and we have to be very cautious; on the other hand we have to come up with $1.2 billion in savings for the Budget Committee. So we have to come up in savings $1.2 billion, and the chairman of the Budget Committee was very kind, very gracious. I mean cooperative.

He told me, look, Mr. Chairman, anything you want for the Farm Credit System, you just give me the figure and you got it. You just tell me where we are going to go get it. So you have to be cautious. And I saw this testimony throughout some of the statements. Yes, the cost of the dairy program is going down, the cost of the cotton program is going down.

I mean my cotton people in South Texas are kissing me. Cotton is selling at 80 cents; this is the best year we have had pricewise this century. And for those that say save the family farm, hey, peanuts is family farm. It is working well. Sugar is family farm. It is working well. Rice is family farm. It is working well. Cotton is family farm. It is working well.

Cattlemen told you, hey, we have suffered. We are doing fairly well. Sheep, doing fairly well. The grains, wheat, isn't working, but that does not mean the whole she-bang is not working. Economically, we have had problems because all the other things that affect us beyond our control in the Congress and Agriculture Committee, and you as producers, somebody else messed it up. And then we have had to suffer that.

But we cannot go on saying the sky is falling, the sky is falling, the sky is falling because it isn't. We have been there before. We are going to come out. They stumble over more money in 1 day at the Pentagon than the farm bill is costing. [Laughter.]

But to have some of our producers and some of our leaders in agriculture coming back it is costing, it is costing, it is costing, when we go to the floor, we have got 42 members on our committee, maybe 15 or 20 more, that is it. And we have got to have 218.

So if you are upset because we didn't accept your proposal, and you are upset because your philosophy has not been accepted, you are upset for whatever reason, you might be causing a very detrimental effect to agriculture because we have to get 218.

And the city fellows keep hearing, well, one of your farm fellows, it cost too much, costing too much. It isn't costing too much. He

said it, Chairman Stenholm. Money, but it is coming down, it is coming down, it is pointing down, it is working. I kept hearing stories about Iowa. I went to Iowa. Everybody there wants to talk farm bill, wants to know if I was running for President. They don't want to talk Harkin bill, Gephardt bill—wants to know if I was running for president. [Laughter.]

So we have to be cautious what we do because it is very difficult getting a consensus, but the cost is coming down. But I don't feel guilty out of $1 trillion plus, this South Texas mind can't comprehend trillion. Out of $1 trillion plus, we are saying, hey, agriculture needs $25 billion. I am almost ashamed to mention $25 billion in the context of $1 trillion plus budget.

And we should not be pointing the finger at ourselves saying we are costing too much. It is costing too much. If there is a subsidy in this country, it is the American consumer that has been subsidized over the back of the American producer. All of us know that.

I was interviewed last night by a young man with the Pueblo newspaper, and he captured the feeling I wanted to give to him. I said, it's going to work. I said, farmers are a very special kind of people.

And I come from the land in South Texas, and they have a saying in South Texas, if you don't feel a vibration when you go on the land, forget it. It isn't going to grow for you. And that is what it is all about. And big corporations and all of the other things, if you don't feel the vibration it ain't going to work.

It is the people who feel the vibration that we need to keep on the land. That was your problem, with the Farm Credit System, with the programs. If they are going to cost $35 billion, let it cost $35 billion. We have given more than enough. Farmers have provided the food, the farmers have provided the fiber.

When they landed on the Moon, the suit of the fellow who landed on the Moon had cotton. I was in a submarine, they let me go on a submarine, I am not going to tell you the whole story, but I was on a submarine, the deterrent, keep the world safe, nuclear capability.

I asked the commander, how long can you keep this submarine under water. The commander said as long as I have food for my crew. That is who is keeping the security of this greatest, most powerful nation in the world: farmers of America. And if we are not worth $25 billion, and you can talk anything you want about saving the family farm, well, why do we say save the family farm because we talk about morals, we talk about integrity, we are talking about everything that we mean that America is 200 years of Constitution, 200 plus of our country. All of that is encompassed in something we call farming, ranching, producers, now agribusiness, it changes, it changes, it changes. Now you do it with a computer. We did it with little old nickel tablets, and now a fellow does it with a computer.

All of that is changing, but the end result is—I guess my plea after all this—my 5 minutes are up.

Mr. Stenholm. You can take as much time as you like.

The Chairman. My plea is that whatever your feelings are, different from the norm, our responsibility is to listen to you, to try and bring your feelings into as much of the norm as is possible on

the floor of the House and signable by a President and an administration that is not too favorably inclined to the kind of legislation that we need, with all due respect.

And then to do that, we have to be together. To do that we have to give and take a little bit here and a little bit there, but we are aiming along the way and we thank you for your participation here.

Mr. STENCEL. Thank you, Chairman. I agree wholeheartedly with you, and if I may just respectfully say, I hope wheat and feed grains follow cotton and peanuts in terms of a program that will work. But the wheat and feed grains program is not working.

The CHAIRMAN. You were saying it wasn't working before we had the first crop in. Give it one crop, give it two. It is a 5-year act. At the end of 5 years let's say your bill didn't work, but give it time.

If not, we can correct it. We can have midcourse corrections, but it is not going to work if we keep saying, it is not going to work, it is not going to work, it is not going to work, and it is costing too much, it is costing too much, costing too much.

Mr. STENCEL. We could spend much more money on any farm program——

The CHAIRMAN. Well, we are trying to make it less, it is going less.

Mr. STENCEL. I know, and I would like to see some of those dollars go to the Farm Credit Cystem instead of $6 billion, perhaps $9 billion so we can lower interest rates for everyone. Extension Service needs dollars. There are so many other programs being cut because we are using dollars for other programs, you know——

The CHAIRMAN. Then your testimony, why are we spending too much. We are spending too much on what you don't like. You would like to spend it on something else.

Mr. STENCEL. Perhaps.

Mr. STENHOLM. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman. I thought from my perspective that was a marvelous statement by my colleague Chairman de la Garza. We have been here a couple of hours, and I notice he was a lot quieter before he left the table, and went back to the back of the room, he came back pretty excited. I was wondering what he had back there.

Thank you for that great statement. And I would like to, Mr. Chairman, if there is no objection at this point to put in the record, submit a copy of Mr. Dave Carter's written statement. Mr. Carter is the national secretary of the Farmers Union.

Mr. STENHOLM. Without objection, Mr. Carter's statement will be made a part of the record. We will call panel four. Mr. Camerlo, Mr. Anderson, and Mr. Gregerson.

[The prepared statement of Mr. Carter appears at the conclusion of the hearing.]

Mr. STENHOLM. I recognize Mr. Tom Camerlo, president, National Milk Producers Federation, Florence, Colorado.

STATEMENT OF JAMES P. CAMERLO, PRESIDENT, NATIONAL MILK PRODUCERS FEDERATION

Mr. CAMERLO. Mr. Chairman, I would like to wish you and Chairman de la Garza a good stay in Colorado. We are glad to have you here.

Congressman Campbell just walked out, but you might tell him, Congressman Stenholm, Chairman de la Garza has been buying fishing poles for the past several years, and we have some bood fishing here. So get Ben to take him out by a fishing hole today, if you get a little time, we would like to have you do that while you are here.

Mr. STENHOLM. I have noticed that my schedule is tight with no time for fishing. It is just work, but we will come back.

Mr. CAMERLO. We appreciate that.

My name is Tom Camerlo, Mr. Chairman, and I am a dairy farmer in Florence, Colorado about 30 miles west of here. I am president of the National Milk Producers Federation as well as Western Dairymen Cooperative, Inc. WDCI is the largest area co-op in the Rocky Mountain area.

We market raw milk in 11 States and we sell finished products in about 30 States today. I appreciate this opportunity to appear before the subcommitte and would like to commend you, Congressman Campbell, for your efforts in bringing the subcommittee to Colorado so that producers can present their views on current farm programs to the Congress. This is a good first. We hope to see you again.

We in the diary industry have been pleased with your responsiveness to our concerns to date, and we look forward to working with you on issues before the Livestock, Dairy and Poultry Subcommittee in the future.

My intention here today, Mr. Chairman, is to focus on how the 1985 farm bill has effected the dairy industry nationally, and what the outlook is for the near term. While I don't want to dwell on past history especially since the dairy termination program was formulated prior to Congressman Campbell's election, but it is gratifying to be able to commend the subcommittee for its role in establishing what we believe are the positive dairy provisions of the Food Security Act of 1985.

Those of you who are members of the subcommittee in the 99th Congress will recall that we were initially concerned that a dairy termination program or whole herd buy-out by itself would not prove adequate to correct the supply-demand imbalance in the dairy industry and a balance which we sought to resolve.

As we look at the nation's agriculture situation today, we are pleased with the tremendous accomplishments evident in the dairy program. No commodity program in the entire farm bill can show the progress in terms of both surplus reduction and government cost savings that we have seen in this dairy program.

It is an enviable record and one which deserves greater attention both as a tribute to this subcommittee and to the hard work and sacrifice of the nation's dairy farmers in making the program a success. What briefly has this program done? It has reduced cow

numbers by 1.6 million. It has reduced 12 billion pounds of milk purchases, or production, excuse me, 65 animals plus their export.

Red meat, as you pointed out, Mr. Chairman, red meat sales or exports are just under 400 million pounds. This was all done at a $1.8 billion cost, seven-tenths would be on being paid as Mr. Wiley pointed out by dairy farmers. Of this cost, about $530 million was the red meat cost, or about 45 percent.

So I think it is important to note that this subcommittee did an excellent job with the support of farmers in a program that really worked, probably worked much better than we anticipated that it would work. With milk production declining and the dairy farmer funded milk promotion efforts helping to boost consumption, dairy program purchases by the CCC have dropped dramatically.

After reaching 13.2 billion pounds or about 9 percent of total production in calendar year 1985, government purchases dropped to 10.6 billion pounds in 1986 during the initial stages of DTP. Now that DTP has nearly run its course, the results are even more dramatic. During the first 7 months of 1987, USDA purchased just 4.5 billion pounds, more than a 50-percent reduction in the same period in 1986.

These dramatic reductions in dairy program purchases translate into substantial reductions in the cost of the dairy price support programs. Fiscal year 1986 dairy programs cost totaled $2.3 billion. For 1987, total growth program costs will be about $1.1 billion, making the dairy program one of the few and perhaps the only commodity program to fall within its budget baseline.

We expect the program savings to continue into the next fiscal year as well with program cost projected below the fiscal year 1987 level. Beyond the tremendous gains in the dairy situation that has been made with the assistance of the DTP, the program has additionally provided substantial aid to the nation's cattle producers largely through the foresight of your subcommittee in providing for the purchase of 400 million pounds of red meat by the government to offset additional meat coming on to the market as a result of DTP.

Now, as the facts come in, this appears that 75 percent of the cattle that were sold, this meat was offset by exports that this committee had recommended to Congress and Congress approved. But we are pleased with the positive results of the dairy termination program, there is nonetheless great concern by our dairy farmers about the possibility of future erosion in milk price supports as a result of the CCC trigger level established in the 1985 farm bill.

Despite the excellent results today, we are concerned that there may be a reduction in the support price of 50 cents per hundred on January 1, 1988, which would lower the support price to $10.60 if USDA projects CCC purchases in 1988 in excess of 5 billion pounds milk equivalent.

Our projections indicate that surplus will be less than 5 billion pounds for 1988, but unfortunately, there is no objective mechanism to deal with this trigger. If USDA reduces the support price and removals turn out to be less than 5 billion pounds for the calendar year, the Department will simply claim that removals were lower because of the price cut.

And, Mr. Chairman, I think it is important to note here that our projection on USDA projections on production are about the same. Where we differ in NMPF is on consumption. We estimate that somewhere between 2.8 and 3 percent increase has been the last few years in consumption this next year. USDA estimates somewhere around 1.9 and 2 percent. This then may trigger over the 5 billion pounds and that is our concern, and it could lead instead of surplus dollars to shortage problems.

And we want to keep these farmers, if that milk is needed, on the farms. This price cut could happen even though it is clear that USDA will not have sufficient stocks of dairy products in CCC inventories to meet its various congressional mandates for domestic and foreign dairy production obligations.

Recently, USDA rejected an opportunity to sell dairy stocks to India claiming that no product was available. At present, many State food distribution coordinators are voicing concern that they will not receive enough dairy products from USDA fiscal year 1988 to meet their local needs under the TEFAP program.

There is quite frankly at this time no unallocated cheese, powder or butter in USDA stocks as we understand it. I am reminded of the press we received, the committee, the dairy industry received in the past few years of huge stocks of cheese, butter, powder, never to be able to be sold or moved and to feed people. Those are not there today, only allocated stocks remain on hand.

We do not believe further price cuts are needed at the present time. Because of our concern, we are exploring possible ways to provide even greater assurance that CCC removals will be below 5 billion pounds in 1988 thereby eliminating the possibility of a price cut on January 1. One proposal which our members are examining at the present is the possibility of increasing national milk promotion expenditures to commercially market even more milk and get us under the 5 billion pound trigger and eliminate the authority for the potential price cut.

We will be communicating our views to a subcommittee on this subject in the coming days. I would like to point out, Mr. Chairman, that for the first time in NMPS, we have met with NCA ahead of time before our board has even voted on this proposal which is unusual for us to point out that we are looking at this.

I want to point clearly that we have at this point, we do not have a position but we will have within a week or so a position in this area, and we hope that our colleagues in the industry don't shoot at us before we get there.

We also would like to remind the committee, and I am sure you are aware of it, the Secretary can continue under the present law the DPT program if he would choose to do so. And our figures indicate from what we see coming out of USDA, even at their lower consumption figure, that we are talking about 50,000 to 75,000 head of cattle that have to be removed from the market.

That would be at a very low cost, with a very low possibility of disruption to the market if the Secretary would choose to take a look at this option. It is an option available to him in the farm bill.

In summary, we are pleased to date the dairy program has worked better than any other commodity program in the 1985 farm bill. The dramatic budgetary savings we have achieved in a very

short period have contributed greatly to reducing the deficit, especially at a time of rising farm program costs and other commodities.

But we do harbor a great deal concern over the possibility of what we consider unwarranted price support reductions at a time when milk production and consumption are in near balance, and the Federal Government is expected to be short of dairy products for its own various program uses.

We think in the industry and agriculture, Mr. Chairman, Chairman de la Garza, and Congressman Campbell, that there is one thing worse, considerably worse than a surplus of food and that is a shortage. The dairy program turned around dramatically, very dramatically with the legislation you passed. It did work. It worked better than the leadership in the dairy industry thought it would work.

It worked very, very well. We want to make sure we don't overreact to this. Thank you very much for providing this hearing today, and thank you for being in our colorful Colorado State. We appreciate it.

[The prepared statement of Mr. Camerlo appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much, Tom.

Next, Leland Anderson, executive vice president and general manager of Western Dairymen Cooperative Inc., Thornton, Colorado.

Lee, let me say it is a pleasure to welcome you in your new position. We hated to lose you in Texas, but we are glad to see you still on the other side of the mike representing dairymen in Colorado.

STATEMENT OF LELAND M. ANDERSON, EXECUTIVE VICE PRESIDENT AND GENERAL MANAGER, WESTERN DAIRYMEN COOPERATIVE, INC.

Mr. ANDERSON. Thank you, Charlie.

It is a pleasure also to be here today and to be a part of this organization in this area. I was just thinking, two fellow members from Texas here. When I first moved to Texas about 18 years ago, I guess, I had to learn to say "ya'll" and now I got to change that maybe because I don't think you say "ya'll" as frequently here as we did in Texas.

Mr. STENHOLM. By the way, how do you pronounce Colorado?

Mr. ANDERSON. Colorado.

Mr. STENHOLM. I am having a hard time. Go ahead.

Mr. ANDERSON. Mr. Chairman, and members of the subcommittee, my name is Leland Anderson, executive vice president and general manager of Western Dairymen Cooperative Incorporated. We know it as WDCI.

WDCI is the result of a recent merger of Mountain Empire Dairymen's Association of Colorado and Inter-Mountain Milk Producers Association of Utah. WDCI markets about 2½ billion pounds of milk per year from 1,500 dairy farmers in the Rocky Mountain area.

These members are located in 11 States and concentrated in small groups or pockets as the geography will allow. WDCI main-

tains headquarters offices in Thornton, Colorado and Salt Lake City, Utah and currently operates nine processing facilities. We welcome the subcommittee to Colorado and appreciate your taking the time to listen to the concerns of agriculture in this area.

The dairy farmers in this area have felt the same economic pressures that have touched agriculture in other parts of the country. As prices have moved down and the cost of production up, the margins have gotten smaller and the need to change is the result. For many that change has been to sell out their herds and go out of business, and look for an opportunity in other segments of agriculture or leave agriculture entirely and seek employment in the urban market.

For those who stay in the business of milk production at the lower per unit margin level, that change has been to increase their production to maintain the necessary cash flow to meet the obligations of their farms. U.S. agriculture has the capability to produce more than we can consume, and dairymen in this area understand that you cannot maintain price levels with adequate margins with unlimited production opportunities.

Dairy farmers in this area also recognize the geographical complications of mountains and valleys and deserts require that we maintain a production market balance and have directed base and quota plans on themselves to achieve that balance realizing however that we do operate in one national market where the response in any given area of the country can impact our price.

The dairy termination plan of the 1985 farm bill has had a major impact on the milk production levels throughout the country. This program has made a major break in the chain of production, of the production trend that we were experiencing, but we are concerned about where we are going from here.

Specifically, we are concerned about the wisdom of potential price cuts in the future. Are we really interested in reducing the number of farmers or are we interested in maintaining a balance in production? As we mentioned earlier, the reaction of any agricultural enterprise to falling prices or decreasing margins is to increase the total volume that we produce.

Over the last 3 years, we have experienced several price cuts in the dairy price support program. However, if you look at the production trends as shown on the testimony that we have submitted from the cooperative, you will find that the only cuts that have resulted in corresponding production drops have come when they have been associated with some type of supply management program.

The reductions of 1984 came as a result of the diversion program, and the drop in production of 1986 has been the direct result of the dairy termination program. The lower prices that have come along with the termination program I believe have been a major factor in encouraging those who are staying in business to increase their production once again to cover the cash flow needs that they experienced in their own operations.

Dairy farmers have been willing to accept their share of responsibility in maintaining supply and demand balances wherever possible. They have strongly supported the advertising efforts of the National Dairy Board and local, State and regional promotion orga-

nizations. They have worked hard to encourage the consumption of real dairy products and will support and encourage legisalative efforts to make sure that proper products are properly labeled as to their contents such as Congressman Stenholm the pizza issue that you are also aware of and involved in sponsoring some legislation on.

We are concerned and want to make sure that we will continue to fight hard to impose the importation of product that will cause their production to end up in CCC purchases. But it is difficult for dairy farmers to live with reducing prices at the same time that they are being encouraged to cut back on their production.

We would strongly encourage the subcommittee in their continued deliberation of dairy programs to take a serious look at the potential value and the impact that supply management programs have had and will have on continuing operation of the dairy industry.

These programs will be most helpful in maintaining a strong economic base. This may be a diversion program, dairy termination programs, two-tier pricing, bases or quotas being assigned, a variety of all these may be considered and anyone of them may work well. But we must give some serious consideration to these alternatives.

We recognize that we are in one national market, and while we may have limited markets in this area, we are still impacted by the total and must do our part to have an impact on the overall national situation.

We thank you for your part and your support in the past and look forward to an opportunity to work with you on the committee as we work towards the reconsideration or continued consideration of issues that relate to the dairy issues.

We will have additional testimony from our cooperative by Francis Gregerson, and following that, we will be available for questions.

[The prepared statement of Mr. Anderson appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much.

Mr. Gregerson.

STATEMENT OF FRANCIS D. GREGERSON, DAIRYMAN, LONGMONT, CO

Mr. GREGERSON. Thank you, Mr. Chairman.

My name is Francis Gregerson. I am a dairy farmer from Longmont, Colorado and second vice president of Western Dairymen Cooperative Inc. I also raise dairy steers and finish them for the beef market.

There are a couple of points I would like to express to you this morning relating to the success of the herd buy out program and the possibility of avoiding the January 1988 price support reduction. In addition, I have prepared for you a recap of the returns from sale of beef animals, namely, cull cows and fat steers from my operation over the course of the diversion and buy-out programs also between them.

The herd buyout program was successful in reducing cow numbers by taking out five generations of dairy cattle and somewhat breaking the chain of reproduction. We have not seen the results of all of this. We have heard about the results of the cows leaving, but we have not seen the results of the younger cattle gone too.

We have reduced milk production nationally, and Tom covered that very well and I will not go into that. We cut in half the surplus product purchased by the CCC in 1986 for an estimated savings of $1.3 billion. In the absence of the dairy termination program assuming a year to year 2 percent increase in production, that would have cost the taxpayers another $1.7 billion.

So there are savings that have been made in that approach. And of course that is an assumption. Dairy farmers paid for 40 percent of the payments made to the participants through the assessments. Not a lot of credit has been given to this fact that the dairy farmers helped to pay on a self-help program.

Additional supplies of dairy beef resulting from the buy-out were offset by the government's purchases of 400 million pounds of red meat for its programs and exports. Some 70,000 head of dairy cattle have been exported, and it is my understanding by the people that are doing the exporting, that our export demand on short bred heifers is the strongest at the present time it has been in many years.

So we have started a demand ongoing for dairy heifers. Representing the equivalent of about 25 million pounds of meat from these heifers that have been exported. This is in conjunction of course with the red meat purchases that offset by three-quarters of the meat come from DPT animal.

Beef prices are and have been higher during the two programs than they were between. I would like to paraphrase one thing and I have heard Mr. Propst's story many times about the brush Colorado market falling $10 a 100, and I would like to tell you the rest of that story. When that announcement was made, we were going through one of the worst storms we had had in eastern Colorado in many years.

I personally had a truck setting in brush at 30 below zero with the fuel jelled up trying to get to Nebraska and he didn't come home for 3 days. So it wasn't the dairy termination program totally. We can do a lot of things in the dairy industry, but we cannot control the weather.

Now that happened at the announcement and not the inception. As a result of the dairy buyout program, production has been reduced. In fact, spot shortages of product have been reported by the southeast and the northeast. The 5 billion pound trigger used by the government to identify their needs for various programs is probably understated. The real need of the government programs should be identified.

Government stocks of surplus prices have been nearly exhausted which may cause shortages in other government programs. For 1988, USDA is predicting a 2-percent increase in commercial sales of dairy products. And Mr. Camerlo touched on that, so in the interests of time, I will not go into that.

The history of the price support reduction and lower prices to dairymen has been that production actually increases as producers attempt to maintain a cash flow. Regional shortages of product will

likely be extended by the seasonal increases in demand that are experienced, and also because of drought in various areas and shortage of roughage feed in certain locals.

As I said once before, price support reductions do not usually find their way into the consumers product or consumer prices. Experience has shown us that lower prices usually don't mean increased sales or increased consumption. Getting to supply management. Many factors exist today that make the dairy a favorable sector of agriculture.

Feed costs have been low, interest rates have been reasonable or less than they were depending on where you are sitting and what you are paying, energy costs have come down. And these are three factors that I as a dairy farmer cannot control. If any of these factors increase significantly along with milk price continuing to drop such as it has in the last 2 years, it tightens the margin gap very tightly, and I have one reaction to make as long as I can make it and that is increased production to maintain my cash flow.

With advances in technology such as automation that is being brought on-line today, increases in output per cow will continue through genetics, nutrition, and additives such as BHT. I think that we have to look at some kind of a supply demand adjuster so that we can maintain a decent price and maintain a cash flow for the dairy farmer that exists.

I have confidence that the industry can develop a responsible supply management program. What we need is cooperation in the industry, commitment from the government that we will not be threatened by imports if we are successful in cutting production. Supply management using a price index that reflects variable influences affecting the dairy farmer's cost today as well as the economic climate consumers are experiencing would be more practical than the outdated dairy parity formula.

Critical to this would be a supply demand adjuster of course. Production controls by supply management as oppose. To controls through price reduction would virtually eliminate the problem of large inventory accumulations and therefore reduce significantly the cost of purchasing and storing the product. Such programs may provide a quicker and less painful means of cutting back milk production than doing it through price alone.

I repeat again, lower prices sometimes and most times as long as we can sustain our dairy farm and our cash flow mean more production in the market. We tend to increase production to keep afloat. Beef prices have been at their highest during the diversion buyout programs. At the conclusion of the diversion program summer of 1985 prices were lower. However, dairy was in the process of building their herd back and did not contribute cow numbers to the beef market.

There was a beef industry that predicted $70 fat cattle that spring if you remember, and when it didn't happen, we all tended to hold our cattle and make them heavier and cause some of our own problem. As a result of the buyout program, as I mentioned before, we removed five generations and future generations of cattle. We have broken the production cycle, substantial number of animals and their offspring which would have impacted the beef market many times over in the years to come are gone.

Remember when the figures are quoted on heifers out there waiting to enter the herd. When we have 43 heifers per 100 cows sitting in the wings to produce, we have 1 million less cows. So when we hear 43 percent, that number of total heifers in reality is less.

One very important factor that all of agriculture must learn is to work together for the betterment of all involved. We all are in favor of voluntary programs as long as our neighbors and friends volunteer and we don't have to.

[The attachments follow:]

1987 Cull Cows

date	head Sold	Monthly Total - hd Sold	Avg $ /cwt	Monthly Avg $ /cwt
1 02	11		$ 35 07	
1 30	8	Jan = 19 hd	43 84	$ 39 45
2 06	6		34 02	
2 13	2		40 08	
2 20	3		45 71	
2 27	3	Feb = 14 hd	45 80	$ 41 40
3 06	3		44 46	
3 13	4		46 34	
3 20	5	March = 12 hd	45 58	$ 45 46
4 03	4		39 65	
4 10	2		45 34	
4 17	1		43 80	
4 24	4	April = 11 hd	41 40	$ 42 53
5 01	8		39 48	
5 08	3		44 81	
5 15	2		40 63	
5 29	1	May = 14 hd	42 14	$ 41 76
6 05	1		41 40	
6 12	1		41 65	
6 26	5	June = 7 hd	40 59	41 21
7 17	5		40 03	
7 24	4		43 32	
7 31	2		45 53	
7 31	1	July = 12 hd	44 36	43 31
8 7	2		43 01	
8 24	4		46 15	
8 28	5	Aug = 11 hd	40 20	43 12

1987 FAT Steers

date	head Sold	Avg. wt Per hd.	Shrink wt.	% yield	$ /cwt dressed wt.	Avg $ Per hd	$ /cwt Live wt.
107	38	# 1280	$ 48634	% 61:56	$ 87^{00}	$ 685^{54}	$ 53^{56}
211	38	1262	47942	60:31	95^{00}	722^{83}	57^{29}
311	38	1238	47040	61:10	95^{00}	718^{50}	58^{04}
417	38	1195	45408	60:13	107^{00}	768^{88}	64^{34}
603	37	1222	45216	60:20	108^{00}	794^{61}	$65.^{02}$
8 20	38	1321	50208	61:01	9800	78996	5980

1986 Cull Cows

date	head Sold	Monthly Total-hd Sold	Avg $ /cwt	Monthly Avg $ /cwt
1 03	10		$ 33 73	
1 10	6		31 45	
1 17	1		33 99	
1 17	15		33 61	
1 24	6		34 12	
1 30	1		37 58	
1 31	4	Jan = 43 hd	36 36	$ 34 40
2 07	14		34 94	
2 14	8		36 91	
2 21	2		38 06	
2 28	7	Feb. = 31 hd	31 03	$ 35 23
3 07	4		27 31	
3 14	5		37 69	
3 21	1	March = 10 hd	38 86	$ 34 62
4 11	1		29 07	
4 11	31		31 64	
4 18	4		32 63	
4 25	1		37 89	
4 25	5	April = 42 hd	36 42	$ 33 53
5 02	2		27 46	
5 09	3		33 48	
5 16	2		28 03	
5 23	4		29 37	
5 30	1		29 88	
5 30	2	May = 14 hd	34 00	$ 30 37
6 06	3		36 93	
6 13	12		34 96	
6 20	4	June = 19 hd	27 30	$ 33 06
7 11	8		31 42	
7 18	5		28 31	
7 25	5	July = 18 hd	36 06	$ 31 93
8 22	8	Aug = 8 hd	32 27	$ 32 27
9 12	5		33 78	
9 26	4	Sept = 9 hd	27 82	$ 30 80
10 17	2		34 06	
10 03	5		35 38	
10 10	2		35 66	
10 24	1		16 26	
10 31	8	[illegible] 18 hd	34 46	$ 31 16
11 07	6		31 14	
11 14	1		38 42	

1986 (Con't) — Cull Cows

date	head Sold	Monthly total-hd Sold	Avg $/cwt	Monthly Avg $/cwt
11 14	2		$ 37^{15}	
11 21	4	Nov. = 13 hd	25^{65}	$ 33^{09}
12 05	4		31^{65}	
12 02	9		31^{46}	
12 19	9	Dec = 22 hd	33^{55}	$ 32^{22}
		1986 = 247 hd		Avg $ 32^{72}

1986 Fat Steers

date	hd Sold	Avg. Wt. Per hd.	Shrink Wt.	% Yield	$ /cwt dressed wt	Avg $ Per hd.	$ /cwt Live wt
1 11	37	# 1316	# 48691	% 58.93	$ 92.00	$ 713.47	$ 51.21
4 11	35	1403	49114	61.53	75.10	647.61	46.15
5 08	37	1408	52109	62.32	80.00	702.23	49.86
5 30	37	1387	51322	61.77	80.10	685.49	49.42
7 03	38	1296	53050	60.55	85.00	718.50	51.47
7 25	38	1390	52819	61.08	86.00	730.19	52.53
8 21	38	1329	50518	61.48	88.50	723.35	54.41
9 11	38	1344	51072	61.45	89.10	734.41	54.69
10 02	38	1326	50381	60.75	88.10	708.86	53.46
10 27	38	1299	49363	61.22	93.40	739.69	56.93
11 20	38	1264	48019	61.79	94.00	723.94	58.08
12 17	38	1218	46272	61.04	90.00	668.96	54.94
1986 =	450 hd	16080#	602730#	avg % 61.16	$ avg 86.70	$ avg 708.88	$ avg 53.01
		avg 1340#					

1985

Cull Cows

date	Head Sold	Monthly Total Hd Sold	Avg $/cwt	Monthly Avg $/cwt
01 11	6		$ 38.68	
01 18	8		38.16	
01 24	3	Jan = 17 hd	37.93	$ 32.05
02 01	2		37.50	
02 01	1		40.75	
02 08	1		32.75	
02 22	3	Feb = 7 hd	38.42	$ 37.35
03 08	1		38.25	
03 08	1		65.00	
03 15	3	March = 5 hd	37.42	$ 46.89
04 05	3		41.50	
04 05	1		38.00	
04 05	1		70.00	
04 12	3		34.70	
04 19	3		37.95	
04 26	1		35.50	
04 26	6	April = 18 hd	38.49	42.59
05 03	4		37.81	
05 10	6		34.87	
05 17	1		38.85	
05 17	1		40.00	
05 24	4	May = 16 hd	37.31	$ 37.77
06 19	1		38.00	
06 21	3		36.12	
06 28	3	June = 7 hd	35.37	$ 36.49
07 03	11		34.52	
07 19	5		34.80	
07 26	3	July = 19 hd	36.70	$ 35.34
08 09	3		38.83	
08 23	4		36.50	
08 30	9	Aug. = 16 hd	31.32	$ 36.22
09 20	4		35.63	
09 25	2		12.50	
09 27	5	Sept. = 11 hd	33.15	$ 27.09
10 04	9		32.21	
10 11	4		31.28	
10 25	7	Oct. = 20 hd	32.54	$ 32.01
11 01	7		34.15	
11 15	3		32.92	
11 22	1	Nov. = 11 hd	27.25	$ 31.44
		-Nov. = 147 hd	$ Avg.	36.48

1985 Fat Steers

date	hd. Sold	Avg. wt Per hd.	Shrink wt.	% Yield	$ /cwt dressed wt.	Avg $ Per hd	$ /cwt Live wt.
1 11	37	# 1316	# 48691	% 58.93	$ 92.00	$ 713.45	$ 54.21
1 17	37	1387	51322	61.18	97.00	827.14	59.64
4 08	37	1389	51418	62.12	90.00	771.62	55.91
4 11	35	1403	49114	61.53	75.00	647.61	46.15
5 08	37	1408	52109	62.32	80.00	702.23	49.86
5 30	37	1387	51322	66.77	80.00	685.19	49.42
7 03	38	1396	53050	60.55	85.00	718.50	51.47
7 08	37	1543	57082	63.27	79.00	771.24	49.98
7 25	38	1390	52819	61.08	86.00	730.19	52.53
8 21	38	1329	50518	61.48	88.50	723.85	54.41
8 23	37	1516	56083	62.70	74.00	703.39	46.40
9 11	38	1344	51072	61.45	89.00	734.41	54.69
9 14	35	1474	51610	62.99	72.00	668.50	45.36
10 02	38	1326	50381	60.75	88.00	708.86	53.46
10 22	35	1497	52397	61.19	84.00	769.45	51.40
10 27	38	1299	49363	61.20	93.00	739.69	56.93
11 15	35	1479	51763	61.58	94.00	856.12	57.88
11 20	38	1264	48019	61.79	94.00	733.94	58.08
11 26	36	1413	50841	60.85	94.00	808.22	57.20
12 24	37	1332	49306	60.80	91.00	736.97	55.83
1985	738 hd	27892 #	1028300 #	Avg 61.74%	$ 86.27	Avg $ 737.76	Avg $ 53.01
		Avg. 1395 # hd					

1984 Cull Cows

date	head Sold	Monthly Total - hd Sold	Avg $ /cwt	Monthly Avg $ /cwt
1 06	22		$ 31.97	
1 13	3		29.03	
1 27	3	Jan = 28 hd	37.41	$ 32.80
2 10	1		42.25	
2 10	1		41.50	
2 10	5		42.02	
2 24	6	Feb = 13 hd	41.10	$ 41.72
4 06	8		40.14	
4 27	5	april = 13 hd	41.35	$ 40.74
5 11	6		43.63	
5 18	1	May = 7 hd	32.50	$ 38.06
6 01	1		34.75	
6 01	5		41.41	
6 22	10		40.60	
6 29	7	June = 23 hd	43.00	$ 39.74
* 3 06	1	* March = 1 hd	60.00	$ 60.00
7 09	3		35.83	
7 07	1		70.00	
7 20	4	July = 8 hd	37.06	$ 47.63
8 10	7		40.00	
8 24	7	Aug. = 14 hd	35.81	$ 37.90
9 14	14		38.17	
9 21	10		38.40	
9 26	1	Sept = 25 hd	33.75	$ 36.77
10 14	11	Oct = 11 hd	36.37	$ 36.37
11 23	25		36.70	
11 23	2		40.38	
11 23	1	Nov. = 28 hd	46.50	$ 41.19
12 14	7		35.61	
12 21	9	Dec = 16 hd	33.94	$ 34.77
		1984 = 187 hd	Avg $	40.66

1984

Fat Steers

date	hd Sold	Avg. wt Per hd	Shrink wt.	% Yield	$ /cwt dressed wt.	Avg $ Per hd.	$ /cwt Live wt.
223	35	# 1376	# 48170	% 61.31	$ 101.50	$ 856^{28}	$ 62^{23}
405	35	1416	49565	61.50	105^{00}	914^{38}	64^{57}
516	35	1372	48010	62.12	99^{00}	843^{76}	61^{50}
522	35	1358	47520	60.82	97^{00}	801^{16}	58^{99}
816	35	1403	49104	60.04	94^{00}	791^{82}	58^{31}
924	36	1488	52099	63.11	92^{00}	863^{95}	58^{67}
1106	36	1422	51197	62.53	92^{00}	818^{04}	57^{50}
1206	37	1356	50189	61.81	100^{10}	831^{36}	61^{81}
1984	284 hd	# 11191 Avg# 1399 lb	395,854#	% Avg 61.65	$ Avg 97^{56}	$ Avg 840^{09}	$ Avg 60^{37}

Mr. STENHOLM. Thank you. Mr. Chairman.

The CHAIRMAN. That is when we are going to toss the budget on the other fellow's backyard. No questions.

Mr. STENHOLM. Mr. Campbell.

Mr. CAMPBELL. No questions, Mr. Chairman. I want to apologize to Mr. Camerlo for leaving the podium for a minute, but I will read your testimony in depth. Thank you.

The CHAIRMAN. He mentioned your name very favorably.

Mr. CAMPBELL. Thank you. That does not happen too often. I appreciate that.

Mr. STENHOLM. You mentioned the pizza labeling issue, and as you are well aware, next Thursday, September 10, this subcommittee will hold a hearing in Washington regarding the subject of pizza labeling.

We will be taking a good hard look at that issue, and the basic concept of food labeling. Basically, the consuming public has a right to know what they are eating.

I believe it is important that we know what we are eating, and the basic question here is whether or not you are eating a meat-cheese pizza with fake cheese.

I would also comment about your testimony concerning the proposed price cut and the 5 billion pound trigger. And I think most everyone understands that that is part of the 1985 farm bill, and the message is out there to the dairy industry to reduce your production.

The question though is whether or not the projection will be accurate since it will be a projection. We have asked and have been working very closely with the Department regarding all of the estimating procedures. As you know, the National Milk Producers Federation, Senate Ag Committee, and House Ag Committee are looking at this question and the estimation process.

In addition, on September 14, Darwin Carter will present a briefing for members of this committee and staff on the Dairy Termination Program. There is some question as to whether all of the 400 million pounds of red meat have actually been purchased in the manner in which the law mandates.

Thank you very much for appearing before this committee.

I call panel five, Mr. Yoder and Mr. Bledsoe.

Mr. CAMPBELL. Mr. Chairman, if there is no objection, before we move on to the next panel, I would like to introduce for the record a copy of Mr. Ed Wiedeman's written statement. Mr. Wiedeman is a diary farmer from Greeley, Colorado.

Mr. STENHOLM. Without objection, Mr. Wiedeman's statement will be made a part of the record.

[The prepared statement of Mr. Wiedeman appears at the conclusion of the hearing.]

Mr. STENHOLM. I would like to recognize Mr. Harold Yoder, president, Colorado Cattlemen's Association. Mr. Yoder.

STATEMENT OF HAROLD R. YODER, PRESIDENT, COLORADO CATTLEMEN'S ASSOCIATION

Mr. YODER. Thank you, Mr. Chairman.

Thank you for allowing the Colorado Cattlemen's Association to participate in this important hearing this morning. My name is Harold Yoder, and I am president of the Colorado Cattlemen's Association. I am a rancher from Carvel, Colorado and have been actively involved in the Colorado cattle industry since 1964.

The Colorado Cattlemen's Association was founded in 1867 and presently represents in excess of 2,700 cow-calf operators in the State of Colorado. I am pleased to address this subcommittee on the 1985 farm bill and its effect on the domestic livestock industry in this area. I would like to break a little bit from my text here to make some comments.

Our text was written and prepared directly on the 1985 farm bill. This morning in testimony I recognized that several issues were brought up were not addressed in the 1985 farm bill and I may comment on some of them at the end of my written testimony.

Mr. STENHOLM. Your entire written testimony will be made a part of the record.

Mr. YODER. OK. There are four areas of the Agriculture, Food, Trade and Conservation Act of 1985 which I would like to address. Those are the dairy termination program, the beef promotion and research act, production and control of ag credit.

First the dairy termination program. It remains no secret that the dairy termination program dealt the U.S. cattle industry a severe blow. The market supply was drastically increased over a relatively short period of time driving prices down. I would like to point out, however, that the cattlemen abided by the program and toughed it out.

The important aspect of this time is that according to the 1985 farm bill the dairy termination program is over. Our association has received some information within the last 48 hours that the dairy industry is moving in such a direction that could actually increase milk production and the number of dairy cows at a time when both should be cut back.

The dairy industry is in the process of increasing their promotional assessment by five-tenths to one-tenth per hundred weight, 5 cents to 10 cents per hundred weight. They contend that such an increase from their dairy promotion program would increase milk consumption by 8 to 9 million pounds according to their estimates. This 8 to 9 million pounds of milk would then subtract from the 5 billion pound limit stated in the farm bill thus keeping them below their ceiling.

Such an action would enable dairymen to prevent a 50 cents per hundred weight cut in their support price. The fact is that cattlemen are not concerned what the dairymen are charging for their promotional fees nor do we care what the dairymen want to charge for their production product.

The point we must raise, however, is that there is no guarantee that an increase of such a nature in promotion fees would have a stated effect on consumption. Such estimates cannot be made. If such a program is adopted, it would encourage dairymen to increase production in herd size at a time when they should be liquidating.

We do not need extra incentives provided for dairymen which will necessitate another dairy termination program in the future to

artificially thin them down again. We have helped them out once at a great cost to ourselves, and we are not about to agree to repeat such a program. The cattle market is simply too weak to sustain a blow like that again.

I would like to address the beef promotion and research act, and the effect that this program has had thus far on the cattle and livestock industry. The Colorado Cattlemen's Association supports the act that assesses cattlemen a $1 per head charge for animals at foal. We feel that the program has gone very smoothly in Colorado since its inception in May 1986. Collection through the Colorado State brand wards have been very succcessful and relatively few ranchers objecting.

With regard to the beef promotion research board and the beef operating committee, it is the feeling of the Colorado Cattlemen's Association that members were selected fairly and equitably and that every State has the proper representation given its size and capacity of cattle. Apart from that the program is waiting for the final referendum which will occur no later than May 1988.

We feel that the 24-month trial period prior to the referendum was an adequate time for Colorado ranchers to test the program and establish for themselves its assets and liabilities. The Colorado Cattlemen's Association believes that the success of this program so far and in the future is due primarily to the fact that this is an act for cattlemen, run by cattlemen and monitored by cattlemen.

There has been no government interference thus far. For this program to be successful, it must remain that way. Next, I would like to speak on production controls. The Colorado Cattlemen's Association's foremost concern in this area is that of haying and grazing.

We are deeply concerned about the 592 farm program option which has recently been implemented in 45 States. This program supports the haying and grazing on diverted Federal farm program acres. Colorado is currently one of four States whose agricultural stabilization and conservation service or the AFCS committee has chosen not to go along with the majority of the States and has allowed only grazing on C-2 acres for the 1987 program year.

It is the feeling of the Colorado Cattlemen's Association that the perimeters set by the 1985 farm bill for wheat and feed grain programs must be equitable for all States thereby affecting all agriculture producers in the United States in the same way. If this is not done an unfair competitive edge exists for those states who have gone along with the program over those ones who are being held back.

Apart from the aspect of equalization in order to provide fair competition, the Colorado Cattlemen's Association would like to go on record as supporting the National Cattlemen's Association stand opposing haying and grazing on diverted federal farm program acres which is being diverted as a result of a direct payment, be it cash or payment-in-kind.

An exception would be made here in the case of drought or other emegencies so deemed necessary by the Secretary of Agriculture. The Colorado Cattlemen's Association further opposes haying and grazing on diverted federal farm program acres which is being diverted as a result of a condition of contract and no direct payment

is being made. Again in the presence of drought or another emergency an exception would be made.

To conclude on haying and grazing, the 1985 farm bill must direct all States to act equal if it is to fairly and justly affect all States in a nonbiased way. For segments of the bill to be left up to certain agencies in the State for interpretation or final judgment provides an unfair disadvantage to those States and prevents them from entering into a competitive atmosphere that is equal to all.

Finally, with regard to AG credit, I would like to address the clear title legislation segment of the Food Security Act. In short, the clear title concept is good and badly needed. However, the paperwork nightmare that has been created for banks is very unnecessary. We must establish a method of tracking buyers and notifying creditors that will not create the backlog of useless paperwork our banks are currently experiencing.

In summary, the 1985 farm bill has been a tool that for the most part has enabled Colorado ranchers to continue its business without too much interruption apart from the dairy termination program. The bill has not interfered with the operation of our members and would be maintained the way it was established 2 years ago.

There remain the long-range goals of the Colorado Cattlemen's Association to rid ourselves of all agricultural subsidy programs as soon as possible. While we realize that it is impossible to abolish such programs immediately, this organization feels that such programs serve only to artificially maintain distorted prices ultimately putting cattle ranchers in the whole of agriculture at an unfair advantage.

To disassociate ourselves from the Federal Government is our current policy and remains our ultimate goal. Until such time as this can be achieved, we will continue to work with the government offering our feedback and voice our opinions to work with other ag groups to better facilitate a solution for this problem. As I mentioned at the beginning of this testimony, there were several areas that we did not include in our testimony. One of them being the futures market.

Our association has taken a strong stance that the futures market needed investigation. A GAO study is in place, should come out in November. We are following NCA. We support their position on that. The other problem we have and this basically has to do with secondary credit vehicles that is being talked about in our credit bill now.

There is some talk that the borrower will be forced by creditors to comply with all farm bills and farm regulations such as the ASC and the NSCS program if the secondary markets are used by those lenders. The PCA's, the Federal land banks, that as I understand it is what is going around in Washington, D.C. right now. We do not support that at all. We oppose it very much.

Maybe I didn't state myself properly. I will try and answer that at a later time. The grazing on public lands. We have in the past offered a lot of testimony in the verification of the actual costs of public land grazing. And from many of the studies that have been put forth, most producers who are not users of Federal lands do not actually understand the full cost on grazing on public lands.

Personally, I live in eastern Colorado. I am not involved in public lands. However, through the association of the Colorado Cattlemen's Association, the education I have received of the expenses on this federal land, it is not all as is predicted by a lot of people that aren't affected by it. So we certainly support what Mr. Campbell and the ag committee have done on our grazing land issue.

One other issue, and then I will turn it over to questions or to my partner here. It has come to our attention, the issue of water rights on wilderness areas. And right there, there are proposals that the allotment on wilderness areas should go to the government. And the stand that our state is taking as I understand it, our water congress says that the federal government should be like anybody else that applies for water allotment. They should stand in line, and if an allotment is available, then that is free to them.

That is an issue that I did not prepare testimony on although we are certainly concerned about it. One other note, it is worthwhile to note that the commodities that have not or barely slightly been affected, participated in the subsidiary programs in the past, are at this time postured in a better position than most commodities that have been under subsidiary programs for a long period of time.

I think this should tell the government something abeut the success of government programs and subsidy programs. The cattle industry has certainly taken their blows and has rebuilt their position on our sustaining. Our cattle business looks prosperous right now. I think that should speak something for the free enterprise system without government controls and substantive programs.

Again, Mr. Chairman, I thank you for the opportunity to address this hearing.

[The prepared statement of Mr. Yoder appears at the conclusion of the hearing.]

Mr. Stenholm. Thank you, Mr. Yoder. Next, Mr. Robert Bledsoe, president, Colorado Cattle Feeders Association, Wray, Colorado.

STATEMENT OF ROBERT E. BLEDSOE, PRESIDENT, COLORADO CATTLE FEEDERS ASSOCIATION

Mr. Bledsoe. Thank you, Mr. Chairman.

On behalf of the Colorado Cattle Feeders Association, I would like to thank you for the opportunity to testify before your committee in reference to the 1985 farm bill.

I am Robert Bledsoe, president of the Colorado Cattle Feeders Assocation, and a partner in Bledsoe Cattle Company of Wray, Colorado. My father and I own and operate a 5,000 head capacity feedlot as well as farm 7,000 acres of irrigated farmland, 375 acres of dryland, and ranch on about 60,000 acres of pastureland in Colorado and in South Dakota.

Our headquarters is in Yuma County, Colorado. I would like to first address the issue of haying and grazing on diverted Federal farm program acreage. The Colorado Cattle Feeders Association fully supports the National Cattlemen's Association position of opposing haying and grazing of these acres.

This position is the correct national policy. As we have discovered this current crop year, when a policy of this magnitude is allowed to be directed on a State-by-State basis, some States may be

put in a very distinct economic disadvantage in comparison with their neighboring States.

As I am sure you are well aware, Colorado is one of only four States in the nation that is not allowing the mechanical harvesting of conservation use acres. This is no longer an issue of whether or not haying and grazing should be allowed, but an issue of equity among all States. The cattle feeding industry in Colorado is the fourth largest industry in the State. This industry is very competitive from feedlot to feedlot.

The differing costs of gain put on each head of cattle can mean the difference between a net loss or profit, or a feeding customer returning to a commercial feedlot year to year. When one feedlot is given an economic advantage over another due only to which side of the State line their operation is on, an obvious injustice has occurred.

A national policy is the only equitable correction of this situation. A current problem that cattle feeders have in Colorado concerns the notice to authorize additional loan provisions for eligible producers of 1987 crop of high moisture corn and grain sogrum. This is notice LP-1173.

High-moisture corn harvest in Colorado is less than 3 weeks away. This program concerns producers who dispose of their high-moisture grain through commercial feedlots. At this time, we have been unable to get a definition of what a commercial feedlot is. Feedlots who own 100 percent of the cattle they feed, should not be discriminated against. Our association desperately needs a fast resolution of this potential program.

The next issue I would like to comment on is the dairy termination program. A lot has already been said about this program and the way that it occurred was unfortunate. But the program is over. Cattle feeders, marketing finished cattle during the first few months of the program, were seriously hurt financially.

The concern of Colorado Cattle Feeders Association is what happens from this time on. The dairy producer needs to survive but not at the expense of the beef cattle industry. The dairy producer is a major part of the beef industry, so we are sure that he does not want to see that industry put in jeopardy again.

Currently, there is a large dairy surplus that needs to be reduced. We would hoped that any program aimed at roducing the surplus is focused on the whole beef industry. The dairy producer does not need incentive to produce additional milk. Any artificial means to reduce the current formulation for figuring that level of milk surplus would encourage more production and would eventually harm the beef cattle in the marketplace.

I would also like to comment on the U.S. farm bill of 1985 in respect to the Beef Promotion and Research Act which the Colorado Cattle Feeders' Association wholeheartedly supports. This act enabled the collection of funds to be used for beef promotion and research into the marketing of beef and beef products. After an 18 month trial period, the producer will have the opportunity to decide whether or not the program has been a benefit to the beef industry, and if the program should continue.

This has been a self-help program that has not cost the government any money. Lastly, I would like to address the $50,000 limit

per individual or farming entity set up by the 1985 farm bill. This limit has inadvertently discriminated against the economically sized farm operation. Most self-supporting farms achieve this limit in a short amount of time creating an unequal bias toward the small and in many cases part-time farming operation.

The effect of this situation needs to be considered. Removal of the $50,000 limit would bring a vast majority of the land into compliance thus reducing the total program expenditure because the increased compliance would reduce acreage thereby raising commodity prices. There should be no limit set for operators who receive over two-thirds of their income from agricultural production.

In summary, Mr. Chairman, the Colorado Cattle Feeders Association feels the 1985 farm bill as a whole has had and continues to have a positive effect on the agricultural industry in the State of Colorado. As with any act of this magnitude, problems have arisen. We urge that this farm bill not be reopened at this time but allowed to run its course.

We would encourage the minor modification and refinements of the bill. The cattle feeding industry does not rely on any government supports or subsidies. Colorado Cattle Feeders Association hopes that the entire agricultural industry may become self-supporting and free of government assistance.

Mr. Chairman, again I thank you and your committee for the time to address you teday.

[The prepared statement of Mr. Bledsoe appears at the conclusion of the hearing.]-Subformat:

Mr. STENHOLM. Thank you, Mr. Bledsoe. Mr. Chairman.

The CHAIRMAN. I have no questions. Thank you.

Mr. STENHOLM. Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Harold, I didn't notice in your written testimony, but do you know the total amount collected on that dollar head charge for sold out animals?

Mr. YODER. I do not have that with me. No, I sure don't.

Mr. CAMPBELL. All right. Maybe I will say something since you mentioned the Federal reserved water rights that the cattlemen have been involved. Do you know that as a point of law, the Sierra Club won that one with the Kane decision saying that there was Federal reserve water rights in wilderness areas, and a lot of people in Colorado were not in agreement with that decision.

Judge Kane directed the Forest Service to come up with a plan for securing or protecting those Federal reserve water rights. The Forest Service did come up with a plan that was rejected by the Sierra Club as one of the litigants, and I talked to the head of the Forest Service about 3 weeks ago in Washington.

He assured me that they were now working on another plan that they hoped to have done very soon that will address all those problems. But as you know, there is sort of a stalemate now because the Sierra Club as one of the litigants has really a point of law on their side under the Cane decision. But they in turn want more area put into the wilderness sector and virtually every western Congressman I have spoken to does not want to do that and would not support that until we have a very clear definition on this Federal reserve water rights and what it is going to do.

We think it would just compound the problem if we introduced more wilderness area without knowing the answer to the water problem in the existing wilderness area. So that is where it is now. I know the attorneys from both sides have met two or three times and hopefully we are going to find some kind of position that both sides of that issue can feel their needs are addressed in.

Thank you for appearing.

Mr. STENHOLM. Mr. Yoder, you discussed the clear title legislation and the paperwork nightmare that has been created. Would you elaborate a little more on what is happening to create problems?

Mr. YODER. Yes, sir, I would be happy to.

There is really very little use in the paperwork that goes on right now in the clear title legislation as it is passed in States that don't have the centralized filing. And one point I might make is that the regulations that were sent down as I understand them to comply with the centralized filing system are almost unattainable by most States.

Anyway our secretary of state has told us that it would cost us in excess of $1.5 million a year for a clear title centralized filing system per year, and it would be an ongoing cost. The alternative to the centralized filing system was that anytime a borrower makes application for a loan, he has to designate who he probably will be selling his commodities to.

The banks then sends notice to all of those buyers which is virtually impossible in most cases to know who is going to buy your product 6 months down the road. To notify them that he is the borrower of that institution, and that their name should also be on the check.

This nightmare of paperwork has created a problem for the honest people which is a normal situation and done nothing to stop those who want to be dishonest. All they have to do is give the bank somebody else's name that they are not going to sell to, sell to whomever they want to. There is no record of it, and the man goes free anyway.

So it is a useless tool being used in the manner that they have it, and yet the bank examiners are forcing our credit institutions to comply with that law in that manner. It is costing us as borrowers. We are paying the bill. As far as the Food Security Act, or the Clear Title Act itself, something that should have been done a long time ago, we have no problems with that. We supported it wholeheartedly.

Mr. STENHOLM. Thank you for that clarification. Since the clear title legislation was my legislation, I have a real interest in making certain that it works. I understand that 15 States have complied. In some cases it has been a little more costly than certainly we intended or I think is necessary.

I would encourage you to encourage your State officials and others to contact this committee and myself in particular to be as helpful as we can to make clear title work.

We will be interested in working with you, the banks, and others within this State.

In California, people there fail to acknowledge that water from Federal projects is heavily subsidized by the taxpayers of America.

In your testimony, do you mean to give up any and all Colorado subsidized water, and pay the current cost of water?

Mr. YODER. That is a little hard for me to know without particulars on it, but what I am saying, the history of commodities in the United States shows that a commodity that has not been heavily subsidized meets the marketplace and demand supply meat at the common marketplace then those commodities eventually survive at a price level that the people who are left in there can afford to operate in.

Now, granting that we are in a national economy, and that we are in a world trade and some balancing of that world trade has to be done by the federal government in some means, but as far as within the United States, the history shows that the industry that has not been heavily subsidized and have met the marketplace are the ones that eventually come out.

Mr. STENHOLM. I won't quarrel or certainly would not quarrel with that assessment.

When we say never or when we say all, we have to recognize that "subsidies" are defined as extension service, 4-H, research, tax breaks, highways, rural electrification, water, and you can go on and on.

Mr. Campbell.

Mr. CAMPBELL. Thank you, Mr. Chairman.

I just wanted to mention to Harold that a resolution introduced by Congressman Miller of California to do away with what he calls double subsidies. He has had one hearing in the Water and Power Subcommittee of interior already. And if that was pursued to the limit and passed, it would do away with water—you would have one or the other.

You got subsidized water, you couldn't get any subsidies for crops. If you had subsidies for crops, you couldn't get any subsidies for water. And I don't know where that is going, but I thought I might mention that to you unless you are already aware of it.

I think it could really hurt western ranchers and farmers in this part of the country anyway.

Mr. STENHOLM. Thank you, Ben for making that point.

Mr. CAMPBELL. You can't have all us Californians getting it all.

Mr. STENHOLM. I appreciate your comment about the high-moisture corn and the things that need to be done to correct the problem. We will take a good look at that and see if there is any way this committee working with Ben can be helpful to you in regards to that issue.

Mr. BLEDSOE. We would appreciate it because the county AFCS offices in the State cannot answer that question. And feedlots like my own are out purchasing high-moisture corn from farmers. If they do not have the ability to get government loan and pick it out immediately at my feedlot or whether or not I am deemed a commercial feedlot depends on if they will sell me the corn, and I can't blame them. They need to get the most out of their product they can.

Mr. STENHOLM. They did rule unfavorably last week, did they not?

Mr. BLEDSOE. The AFCS as of yesterday had no idea.

Mr. STENHOLM. We will check on that.

Mr. BLEDSOE. My only other comment is that your program has been a very successful by and large program. When it is finally—has run its course, we as cattle feeders desperately want to have economically sized farms out there to deal with.

Mr. STENHOLM. Mr. Chairman.

The CHAIRMAN. I can't pass this up. After listening to the announcement at the rodeo last night with all the Texas jokes. You said that you have 7,500 acres irrigated and 375 nonirrigated, and 65,000 grassland, is that right?

Mr. BLEDSOE. Close, yes.

The CHAIRMAN. In my area, you would be one of the little ones. [Laughter.]

Mr. STENHOLM. Mr. Campbell.

Mr. CAMPBELL. No further questions, Mr. Chairman.

Mr. STENHOLM. Can't top that one, so thank you both very much for your appearance. We appreciate your testimony and look forward to working with you.

The next panel is Bud Mekelburg, executive director, Colorado Coalition to Save Rural America, Yuma, Colorado. Bud, welcome.

STATEMENT OF MILTON E. MEKELBURG, EXECUTIVE DIRECTOR, COLORADO COALITION TO SAVE RURAL AMERICA

Mr. MEKELBURG. Thank you, sir. It is an honor to be before this committee, and it is an honor to see the chairman of the full House Agriculture Committee, Mr. de la Garza.

I had the opportunity to present him a national special service award, Mr. de la Garza in Hawaii. That is one of the last times you and I had a real good heart to heart conversation about some of these issues.

My testimony I am going to defer sections of the written, probably you have the copy there, but I want to have the option, Mr. Chairman, to digress just a little bit because I think you raised the question for the opportunity of some discussion, Mr. Campbell, referring directly to the Farm Credit System.

Mr. STENHOLM. Without objection, your entire written testimony will be made a part of the record.

Mr. MEKELBURG. Yes. I would like to delete a lot of the written record.

First of all, my name is Bud Mekelburg, executive director of the Colorado Coalition to Save Rural America, a grass roots organization located in Otis, Colorado about 130 miles east of Denver.

Our policy is to try to change policy, develop policy in agriculture and I think we have developed in this State a successful program of information, mediation and hopefully positive litigation on the settlement of this agricultural crisis between producer and lender.

I was a farmer, still live on the farm, but I rent out the few hundred remaining acres of what was once providing full-time employment for four families. The question I think that we all have to look at today and is still being debated, and the answer is not there, is, are we at the bottom of this downward cycle in agriculture.

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Have land prices stabilized? Have commodity prices started an upward curve to higher levels? Gratefully, some sectors such as the livestock industry have realized some profitability but it is going to take more than 1 or 2 more years possibly to pay back some of the real losses that have occurred over the past several years.

I would like to comment now on a problem that I have not heard addressed here today and it concerns the issue of before we pull out of this cycle, what do we do about the billions of dollars, what kind of policies do we need to develop, what kind of strategies and programs we need to develop on the untold billions of dollars yet that is going to be wrung out of the agriculture economy?

And I have included the banking agricultural sector, the production cycle or sector, and I am talking about—and you are addressing this issue in the farm credit legislation because there are untold, and we don't know, billions of dollars yet in the Farm Credit System that you don't know whether you are going to have to pay for, subsidize or whatever.

I think you are dealing with that, and therefore I would like to defer right straight to the Farmers Home Administration. We deal with lots of farmers and ranchers, and as the record shows, an addendum to this record, we have had over 1,700 telephone calls since January 1 providing information, mediation, and work-outs between farmers and lenders.

When we are working whether it is a deed in lieu of foreclosure or a bankruptcy proceeding or the continuation of debt, or the continuation of an operating loan for a farmer or rancher that is going to stay in business, we have some serious problems in procedure of the Farmers Home Administration.

If in a chapter 12, the bankruptcy can handle that debt settlement, the bankruptcy. You negotiate that, the bankruptcy court determines that this debt will be settled or written off and you can go on your way. The commercial banks, if they want to make a debt settlement on their portion that they feel they are not going to collect whether it is a bankruptcy, deed in lieu of, or continuation in agriculture, they can make that determination. But if you are negotiated out of court, in a mediation program with Farmers Home Administration, you have some terrible untimely costly procedures in their debt settlement procedures and rules and their program.

There are what, approximately, 60-some thousand farmers nationwide, producers nationwide—and a number of those are going to be in foreclosure, or are in foreclosure. And I would ask the committee to look at their debt settlement policy so that they can be more in tune with the commercial banking procedures or even the farm credit procedures on debt settlement or write-off of debt.

I would like to refer next to the issue of the commercial banking system, and in any legislation that you pass for let's say the Farm Credit System that you allow I believe through your legislation 20 years for the write-off of their debt. Do you know what I am saying?

They write off a debt. You give them 20 years. All right, now, look at the commercial banking system. There are many cases of setting a second position. And what provisions or allowances do they have to write off their debt? You give the Farm Credit System

20 years. You are not giving the same advantages to the commercial banking system.

I am saying that because I see a real problem here because it puts an unfair burden to the commercial banking system. So I think we need to think through what are the national policies that need to be developed. What are the national issues of the billions of dollars yet that we are going to have to wring out before this thing starts on an upward trend on this debt settlement issue of our lenders.

Now, the next issue I think if we before we come out of the bottom of this issue of agriculture, the whole national economy, I want to defer that our national debt and our trade deficit are two biggest national priorities, national debt and trade deficit. I believe if these two issues are not resolved in a timely manner, I believe certain sectors of our economy such as agriculture have at least 10 more years of tough times.

I didn't say phase out of all agriculture. I am saying that we have got some real tough times ahead of us if these issues are not dealt with. We in production agriculture have to pay our debts. We have to pay our interest payments. We pay those on new production and new dollars.

And therefore, any type of future, economic development for this nation must be based on the revitalization of some of our—some set industrial complex along with our service and high-tech economy. Because I don't believe that our—this nation will pay its debts on a high-tech service economy. That we must have—and agriculture needs to be the centerpiece in the maintenance or the repayment of that debt.

Next I would like to talk briefly about the 1985 farm bill and has it worked. I think it is very clear—this is not in the record—that there are sectors of the 1985 farm bill that dairy people have indicated that. But the section that is not working is what we rely upon $25, $30, or $35 billion from the Federal Treasury to make that program work.

Now, that I understand was a national consensus that that was a safety net until, you know, to give—to make that lower loan rate, the internationalization of agriculture and all those things happen. So you can go and debate with GATT or whatever, but that the Federal Treasury was going to be the safety net.

I don't have any argument about the public taxpayer paying $30 billion like Chairman de la Garza said, but we cannot and probably will not be able to sustain our urban people, you other Members of Congress, to continue that kind of subsidies to American agriculture.

Therefore, I say and I leave that door open because that debate is going to continue for sometime, that there have to be—a primary program adopted, based upon a market with a safety net provided by the marketplace, and we cannot rely upon continued high subsidization. Therefore, there are several issues here on the 1985 farm bill that are not working.

Supply management is going to have to be, I think, in the future a key part of that. Now, I want to relate to you for the record a telephone conversation because we are sitting here in a sector of

the West competing against the Midwest, and this is something we don't want to do, is sectional agriculture.

We want to keep our national scope and emphasis. I had a long telephone conversation with the past Secretary of Agriculture just before election, the last election. And Mr. Block, who was then outside of the Department, got into discussion about the supply management program.

Now, he was the Secretary that instigated or implemented along with the Congress the 1985 farm bill. And when I brought up that—now, I am referring mainly to the grain, the corn and the wheat and those grain farmers, that this bill is killing us he said, I will never support and this nation should never support a supply management concept. That we should look only at the bottomline.

That if we need to raise the food for our domestic needs and our international markets in the cheapest way possible. Now, if you look at the record we feel that we can produce food in the Midwest cheap. I am talking about feed grains, the soybeans, those types of commodities cheaper than you people in the West.

Now, if we are going to have a supply management program, we are going to cut down 30, 35 or 40 percent of production of every farm in America by mandatory control, then we are becoming inefficient because we are shutting down 35 or 40 percent of our Midwestern highly efficient productive agriculture.

We say what this nation really needs to look at is, and this has bothered me because it is a debate that is going to go on, he said we need to shut down the highly inefficient, high cost irrigated agriculture of the West as a national policy.

Now, that will open enough debate to last for quite awhile. With that I don't believe people realize that there is that kind of debate going on around this country. Next, I would like to refer to a problem, and it was brought up —I would like to look at it in a little different perspective PIK program and the CRP program.

All right. In our workouts with lenders and farmers and ranchers, right now it is a regulation as we understand it, in the Department of Agriculture, that—and not a law that the assignability and PIK and CRP payments cannot be given to a lender, that you got a lender cannot even take an assignment voluntarily from a producer.

All right. Now, let's look at the ramifications of that because we are running into some real problems. Out of court, out of bankruptcy, these kinds of negotiations there is long-term lenders, Farm Credit Administration, or Farm Credit System, Federal land bank in particular, we can make some really good workouts for the continuation of that farmer or rancher if we could give assignability to the CRP's and the PIK certificates.

Now that assignment should not be determined by the lender. That should be determined by the consent of the borrower. Therefore, I would like to encourage the committee to consider is there a way that you could support the Colorado bankers, the independent bankers. I am not going to speak for the Farm Bureau but they gave a strong vote of approval that we need to look at that and the National Farmers Union, the grains and the Colorado coalition have all joined hands in meeting with the Secretary of Agriculture on this issue on the 16th day of this month in Denver.

Therefore, that is an important issue on the negotiation, mediation of debt. And now I would like to refer strictly to the farm credit and then I will close. There are a number of issues about the farm credit, and we talked about interest rates, and I believe if you talk both to the local association people that work with the Farm Credit System on a day to day basis that the interest rates are one of the big issues. And I think you would find that with the producers also.

Is there, or can there be a way to look at—and I know you have the nonrecallable bonds—that will not mature until what, beyond the year 2000. That is the factor that is causing at least 1 percent or more of high cost interest to the stockholders of the Farm Credit System.

That was the mistake of the Farm Credit System. The employees had made that determination to buy those high cost bonds and if they are not redeemable to a year beyond 2000 what can or what should we propose as an alternative but we must have some kind of interest buydown.

Now, if we can take let's say $10 billion or whatever it was that you used for the bailout, or I should say for the continuance of the savings and loan association which happened out at Congress a couple, 3 weeks ago. Why can't we, as a nation, figure out some way to help out the producers of this nation with an interest rate buydown program?

All right. Another thing I think we need to think about is the local boards. We talk about local control. And we have made the commitment—I believe you have in the House, yet to be defined in the Senate—that you are committed to return some local control back to that level. What do we mean by that?

I tell you what we in the coalition have determined that needs to happen is to return to local control. No. 1 that the issuance of all new loans should have more local board approval. That all foreclosures should have local board approval.

Should that be determined by law or by negotiation, whether they have the final say-so or some central bank has the final say-so. I think that needs to be clarified and determined. I believe it needs to be returned back to the prior 1971, prior 1971 amendment where—and ever since then that is when we lost that control.

Let's talk about the homestead mediation, first right of refusal. I guess I will have to disagree with my good friend from the Farm Bureau in this respect is that yes, there are some tradeoffs here. It does clutter some paper to have first right and mediation and homestead. But I want to tell you, and I think the chairman and Representative Campbell addressed that.

There are some other factors that need to be addressed in this issue if, and it has happened, but it is not going to happen very often, is the repurchase of the first right of first refusal. It is not going to happen today very, very often, but it has happened. There are some social, economic costs to a community, to a State, and to a nation when you just absolutely have no option but to move that individual off that farm or that ranch.

Our first pri-rity should be to keep him in that community, and if they have a nomestead right, they might be able to stay in that community, bt t it might be under different circumstances than in

production. Therefore, we support the homestead mediation first right of refusal in farm credit legislation.

Now, let's talk about what do we envision as seeing the final product of legislation in the Farm Credit System legislation? We envision local associations where they vote, they buy stock, they determine the final say-so on new loans, on foreclosures. And in that legislation that we consider with that determination made by local people to de-merge, if the local people want to, by the issuance or by the securance of new charter. Maybe they want to form a new association, a Federal land bank or PCA within a given area.

We have had huge chunks of land in this State and in the ninth district where I believe the people can handle that problem better at that level in the county of Wichita and they ought to have that right to get a new charter if they so desire.

All right. So we have local associations. Now, the big problem is interest rate setting, and who should make that determination. I would say from a layman's viewpoint that the local associations do not have in the vast majority of the local associations do not have the capability or the creditability or the understanding to set interest rates today.

We at the Yuma association a year ago had $100 million in loans at the Federal land bank. That determination of interest rate setting is set at the higher level now. It used to be set at the local level, but that capability has left the local association, and we need to return it to the local association, but you need to give the local association time to develop that capability.

If you dumped $80 or $100 million in the laps of the local board, the local staff couldn't handle it, not the interest rate setting issue. But that has to be worked on and developed over a period of time, but it needs to return to the local level.

Now, let's talk about the central banks. The Colorado Coalition, Mr. Chairman, would support the reduction of the number of banks such as Wichita, Spokane, Sacramento or whatever. Under these conditions, that that determination be made not by mandate of Congress but by the local voters, but maybe it will have to take some pressure to get that done. But it should be made by local voters. Why? Because that is a local private entity, that bank, it has stockholders, it has a board of directors, and we feel that because it is a private entity that the local people should vote on that rather than mandate it by Congress.

Therefore, I would like to ask for a deferment on the centralization issue but that that receive a full discussion. I believe that under the new technology providing stockholders approval that we have the capabilities to have less banks. Central banks I am talking about.

And let's talk about the Farm Credit Corporation of the America and the Capital Corporation of America. I believe that they ought to be abolished, both of them. That is a tremendous overhead figure and if you are going to return local control then the Capital Corporation, the Farm Credit Administration needs to be abolished and those combined legal authorities now need to be returned back to the central bank. I am talking about the regional bank which might be 6, might be 7, might be 8 or whatever, and the local association.

Because the policy, the policy, setting, organization or layer within the Farm Credit System is now the FPCA. Let's let the bank in Wichita if that happens to be one of the remaining six or whatever, that they make those policy decisions through their board of directors elected by local stockholders and that the majority of those stockholders be producers and not staff. Or that all of those be producers and no sfaff members on the board of directors.

Now, we talk about the central bank, Mr. Chairman, understand, you are thinking of a central bank for the issuance of funds to the six regional banks. So the question is should the six regional banks be a part of the central bank? Should they be regional banks out here whereby they have—the central bank has authority over them? Or should they be autonomous. Should they stand alone?

If they fail, they fail. If they make it, they make it. We could support the central bank concept for the issuance of securities from, for the selling of bonds, for the examination, for the audit, for the recordkeeping, but that each of these banks once they are determined be autonomous from any central banking system.

And then we come to the last problem, which is the highest level, at the Federal level, and that is the Farm Credit Administration. That they be strictly an arms-length regulator, have nothing to do with the day to day policy setting or any of that. But that they see that once those policies are made, that they are implemented. And that we would support a central bank. We have some kind of concept like that on the security of bonds and so forth. But the big authority has got to return back to the Wichita level, that these will be autonomous, and the local authority returned back to the association and that is all the levels you need as a final product in any Federal credit legislation.

Now there is consideration for the technical assistance board. And that has us concerned. When you get that type of people, and can see the concern in Congress that if you, you know, if the people are going to put x billion dollars into that system, that there needs to be some review. But I feel that they are going to take authority of the SCA, part of it, and it is going to take authority away from our regional banks such as Wichita.

And if you look at a bailout package of x billion dollars, let's say $5 or $6 billion, I will make a projection that it will probably—and I have to agree with this in many respects—it is probably going to take up to 50 or 60 years to repay that debt by the Farm Credit System. It took us 50 years to get what; $7 billion in reserves before this problem arrived.

All right. If the reserve setting strategy of the Farm Credit System is going to be to reserve certain percentage of all loan volume in reserve programs, plus payback 5 or 6 or 7 billion got to be determined dollars in debt, we are looking at a long, long haul and that is even providing there be no interest paid on that debt. And are we going to have a technical assistance board sitting over the shoulder of our stockholders, of our banks, and our local associations for that length of time?

I think we need to study that and consider it. I believe the secondary market will probably have some short-term positive impact for the Farm Credit System, but it will be negative over the long

pull for the Farm Credit System because I think it will dilute and cause some problems in farm credit availability over the long pull.

For the record, I have the number of calls that we receive, the type of calls, the counties they are received from, and I thank you very much for the opportunity to testify.

[The prepared statement of Mr. Mekelburg appears at the conclusion of the hearing.]

Mr. STENHOLM. Thank you very much, Bud. Mr. Chairman.

The CHAIRMAN. No questions.

Mr. STENHOLM. Mr. Campbell.

Mr. CAMPBELL. Well, we are running toward the end of our time so I won't make an extended thing out of this. I think I agree generally with many of the things that Bud brings up.

One thing that keeps sticking in my mind though is what he refers to as the national supply management system, and I just——

Mr. MEKELBURG. Can I comment on that and maybe clarify the program that happened in the 1950's when I began farming. And it was the hot wheat program. We could produce all that we wanted. We had no limits on production, but we could only sell so many bushels.

I think we have got to get back on a bushel program. All right. That program if I wanted to—my allotment was 1,000 acres of wheat, I have 1,500 acres, I could plant 1,500 acres of wheat, but we only need so much for our domestic consumption and our exports.

I know it is tough to devise nationally an equitable, appropriate procedure for the allocation of a bushel basis. But is it any more difficult than trying to devise a program based upon an acre basis? Now, I believe all hot wheat, all stored wheat, should be at no cost to the Federal Government under no circumstances except emergency reserve for the national priority.

Now, if I want to overproduce, then I store at no cost to me or to the Federal Government. That is all established. And then I get a ticket from ASCS, just how many bushels I can sell and I know there are some problems with "policing" that, administering that, but that worked beautiful.

Look at the 1950's. Looking back at that program, I don't think we need to reinvent the wheel, but that was a type of a wheat program, and it might not work for all commodities, but it sure did work for wheat in the 1950's. It was on a bushel basis. You got so much to sell. You stored all the hot wheat. If you had enough hot wheat stored, and you didn't even want to produce the next year, then you could get release of that hot wheat and look what it has done.

Go back and look at that program, and it won't work for maybe for all commodities, but I am saying that I think we need to debate how far we are going to internationalize agriculture. How much?

Mr. CAMPBELL. I do not want to belabor it. I just want to say that I know we have to get away from subsidy, but I don't think there is any question in anybody's mind that we have to get away from them. But when you introduce a system no matter what you call it, and that is what the Harkin-Gephardt bill is all about.

Mr. MEKELBURG. I think that——

Mr. CAMPBELL. Well, let me finish for a minute, will you. I have to tell you that I am a person of thin government, and I know we have to have it as a necessary evil that is supposed to bring some order to the country. But as an individual and a person that does some ranching, when anybody tells me they are going to mandate what I can produce, I just have to say, I want to tell government to go straight to hell.

I don't care what terms you put it in, whether it is supply management or any other form of some mandate, there is just something that goes wrong inside of me when somebody tells me that I can or can't produce. I much prefer the kind of thing that offers incentives to produce or not produce. to get the thing back in order and I don't want to belabor it any longer than that.

Thank you, Mr. Chairman.

Mr. STENHOLM. A couple of comments, Bud. When you mention a new charter, that is in our bill, H.R. 3030.

We also provide for a 5-year guarantee to stock but it phases out at the end of 5 years. And at the end of those 5 years we expect a new capitalization program for farm credit.

Mr. MEKELBURG. Could I get one clarification, Mr. Chairman?

Mr. STENHOLM. Sure.

Mr. MEKELBURG. And that is how does the Congress envision the status of those six regional banks in relationship to the central bank? Are they independent? Are they service organizations?

You know, I would like to see your philosophy on that.

Mr. STENHOLM. Well, the concept of a central bank for PCA's and FLB's, I don't know where that came from. That is not what I meant.

Mr. MEKELBURG. OK. That clarifies a big issue of ours. Thank you.

Mr. STENHOLM. Thank you very much.

Does anyone in the audience have a question or concern?

Mr. RHOADS. Is this thing working?

Mr. STENHOLM. Yes. Speak right into the mike and identify yourself.

Mr. RHOADS. John Rhoads, I am a director of the Colorado Hay and Forage Association, and we are definitely opposed to the States allowing haying and grazing on the set-aside and all set-aside acreages. Thank you.

Mr. HICKERT. I am Jay Hickert. I am the elected representative of the farm credit district in Wichita from Colorado. My fellow board member from Kansas, Dennis Shirley, is also here with me today. We commend the committee for coming to Colorado for this hearing. We also commend them for reporting the H.R. 3030 out of Congress.

We need expedient action for assistance as you well know because we have two or three Federal land banks that could conceivably need assistance before the end of 1987. We, I think, as a system accepted the challenge on the restructuring. The system doesn't have too much problem with this. The biggest concern I guess I should say is the flow of funds.

We definitely we will need funds sometime in the future and your bill just kind of indicated it would be appropriated as neces-

sary. Now, hopefully, when we do need the funds, they will be available.

Also farm credit is a big concern here today of practically every speaker. My fellow board member and I will stay a little later. Anybody here concerned today that wants to visit with us, we are here and we will take all the time they need to visit about farm credit problems. Thank you.

Mr. STENHOLM. Thank you very much.

Mr. WIEDEMAN. My name is Ed Wiedeman. And I have turned in a written testimony, and I would like to make a few comments on it.

When I look over our situation at the dairy, I see that our production is always the highest in the second quarter of the year. Yet our commercial usage is always the lowest—I mean the highest, our usage is the highest in the third quarter.

And so what I put in the testimony is that we would like to see a quota tied to the last 6 months of the year to establish a quota for our milk pounds. And whenever you go over your quota, I would like to see the difference in price between support price and world market be taken out of your milk check from the co-op or the processor and sent to CCC to handle the surplus milk at a lesser price that way it could move out into the world market and into the storage.

Why I feel this way so strong is because today dairymen that have not increased production are paying the bill twice, and I think it is time that we get off of his back and treat more dairymen more equitably. What I mean by this is the dairymen that holds his production down, you take at a lesser price, has all the assessment costs and he just can't afford it no more. Where the other person that keeps increasing production and creates the problem, he will be able to make it. So I would just like to bring that out in my statement.

Mr. STENHOLM. Thank you very much.

Mrs. SNYDER. I am Phyllis Snyder, and I am a hay and cattle producer. I speak in opposition of haying and grazing on set-aside acres. It is not only from an economic standpoint because to me it is wrong for someone—and the program is voluntary to sign up and to have set-aside acres and then expect the government to let you get your payment for set-aside acres and go ahead and farm it and take the crop off of it.

You are milking the government for all you can get, signing up for government programs that pay you to set-aside instead of expecting the harvest, and to me that is wrong. Look how many dollars in government expenditure they could cut by cutting out this one program.

Mr. STENHOLM. Thank you very much.

Seeing no one else at the mike, Mr. Chairman, do you have any concluding remarks?

The CHAIRMAN. I would like to thank all who testified for your contributions. We appreciate it very much, and I assure you it will be very helpful for us as we consider further action on the farm legislation and on the farm credit legislation. Again, thanks to our colleague Ben Campbell for having this hearing. All of the hospital-

ity that has been afforded to us up until now, including the Texas jokes, has been very much appreciated.

I hope we enjoy the second half of our visit here as we have the first half. Thank you, Mr. Chairman.

Mr. STENHOLM. Mr. Campbell.

Mr. CAMPBELL. Well, Mr. Chairman, if there is no objection, first I would like to submit a copy of Mr. Jay Hickert's written statement. Mr. Hickert is a vice chairman on the board of directors for the Ninth Farm Credit District in the Wichita District Farm Credit Counsel.

Mr. STENHOLM. Without objection, Mr. Hickert's statement will be made a part of the record.

[The prepared statement of Mr. Hickert appears at the conclusion of the hearing.]

Mr. CAMPBELL. Thank you.

I want to tell people that I really appreciate your input and a number of people in particular who helped put this on. Certainly, the fair manager, Mr. Robb, who went out of his way to make sure we had a facility and to Pueblo Community College that supplied the coffee and the donuts, and particularly to my colleagues from Texas who have taken part of their, what is called the legislative break, to come out here and hear our concerns.

I hope that this kind of thing can be done yearly. Who knows what will happen next year, but there always seem to be problems that we have to address. One thing that came through to me anyway is that generally under the 1985 farm bill, we have done a relatively good job. There are still some glitches in it.

I might tell you that one thing I found out in my limited tenure in government is that nothing ever stays the same. It is always changing. The tax bill for instance that was enacted last year was supposed to be the answer to all of our tax problems. There are over 50 bills introduced already this year to change the Tax Reform Act of 1986. So I guess that is just the way it works in American Government.

But certainly we have the best government of any I have seen. I wanted to also thank my administrative assistant Sherrie Wolff, who is in the back, and Murray Rapp who is back here and who has dealt individually with many of the farm groups here in Colorado and who handles our farm legislation in Washington.

Again, I want to thank you very much for coming, and thank you gentlemen.

Mr. STENHOLM. Ben, thank you very much, and thank you again for inviting us.

I have found in my brief legislative career that you always learn when you listen to the viewpoints from other areas so that you can have a better balance of what American agricultural policy is all about.

I didn't hear anyone today mention sodbuster, and I would just mention at this point in time and encourage each and every producer in this State to check with your local SCS and ASCS offices as soon as possible. Do not wait until 1990 to find out exactly how sodbuster is going to affect you in the future.

The chairman mentioned getting his ducks in a row, and I have just got to share this with you in conclusion. I heard the chairman

once when he appeared before the Rules Committee back when the 1985 farm bill was about to go to the floor. I heard him being admonished by the Rules Committee chairman at that time because we were having difficulty getting the 1985 farm bill into the proper form and fashion to bring to the House floor.

And the chairman of the Rules Committee said to Mr. de la Garza, "Get your ducks in a row." And the chairman said, "Mr. Chairman, I have got too many ducks. When I put one in a row, another one runs off in a different direction. Therefore, I am having trouble getting my ducks to line up.

I didn't comment when the beef and the dairy witnesses were before us, but I want to highly commend both industries. In fact, all of agriculture is beginning to recognize the absolute importance of self-help research and promotion programs. Self-help programs are absolutely necessary if we are going to achieve results.

The cost of the farm bill is now estimated at $76 billion over 5 years. To those that say that this is costing too much, can you imagine what the cost would have been had we had the collapse of prices that we would have had with any other type of program? The cost is high, but necessary, if we are in fact going to be a competitive agricultural industry in the international market.

I submit, yes, it costs too much by historical definition of the budget. However, it was the wisdom of all parties crafting the 1985 farm bill that that cost should be a shared cost.

No further comments. We again thank you. The testimony has been excellent. We appreciate, Ben, you inviting us. This field hearing stands adjourned.

[Whereupon, at 12:07 p.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

TESTIMONY OF PETER R. DECKER

COMMISSIONER OF AGRICULTURE, STATE OF COLORADO

Chairman de la Garza and members of the Subcommittee:

My name is Peter R. Decker, Commissioner of Agriculture for the State of Colorado. On behalf of Governor Roy Romer, I'd like to welcome you to our beautiful state. I hope you will take advantage of this opportunity to enjoy Colorado and our State Fair, the showcase of Colorado Agriculture.

I would also like to express my appreciation to Congressman Campbell and the other members of the House Agriculture Committee for holding hearings in Colorado so as to learn first hand about the economic issues facing colorado agriculture.

COLORADO'S FARM AND RANCH FINANCE OUTLOOK

My remarks to you today will focus on the financial condition of agriculture in Colorado. The producers of agricultural products in Colorado face a common concern. The availability of affordable credit, long term credit, is the linchpin of the future for many of our state's producers.

In particular, I have much to tell you regarding credit availability and the role of financial institutions in the state. I believe that unless the credit situation is remedied soon, no farm bill can be of much assistance to producers in Colorado. Others appearing on the agenda today will address many specifics of the farm bill. I would like to preface their remarks by discussing the financial setting and where I perceive progress can be achieved.

One third of our producers are in such serious financial straits that they will not likely be in business in the year 1989.

Another third of our producers have leveraged their assets so heavily that any significant upturn in production costs could force them out of business. The possibility of sharply higher costs for petroleum-based inputs in agriculture looms as a specter on the horizon. Indeed, the recent stability of input costs has quite literally been the only saving grace for many of our state's producers.

Private sector capital sources, specifically small rural banks, are incapable of serving the needs of all Colorado's producers. Those private banks willing to lend to the agricultural producing sector are generally unable to provide long term capital in sufficient amounts to meet agricultural demand while those private sources with adequate capital are generally unwilling to make farm and ranch loans due to high risk.

Who could blame them for being a little gun shy? Between the economic difficulties associated with agriculture and the energy industry, the banking industry in Colorado has suffered severe losses.

Insurance companies also have, for the most part, departed agriculture due to the persistent decline in land values over the past three to four years. Many insurance companies now own farmland which they acquired through bankruptcy or foreclosure, a burden for them to manage or sell.

THE FARM CREDIT SYSTEM IN COLORADO

Federal farm credit sources are the primary vehicle for long term credit in Colorado. They are not healthy, and they are not serving the needs of the industry. In my opinion, the Farm Credit System (FCS) is in disarray. Uncertainty concerning the future of FCS has caused confusion among its ranks, and those farmers and ranchers considered good risks are wary about continuing their relationship with a system in financial difficulty. In short, the system lacks credibility both in terms of its management and its financial resources.

We have seen, however, some improvement in the administration of the Wichita Bank in recent months. I sense that the agency is attempting to cooperate with producers in difficult conditions. I also believe there is an earnest effort on the part of most local office directors to try to work with the borrowers in restructuring loans where they can.

But the Colorado Department of Agriculture continues to receive numerous complaints from producers who tell us that foreclosure notices arrive in the mail, not loan restructuring offers. Too often producers are placed in foreclosure when the debt could easily be profitably restructured and the farmer or rancher allowed to remain in business. These foreclosure cases are too often the result of over zealous office directors ignoring or misinterpreting the directives of the Wichita bank.

I applaud the efforts of the House Committee on Agriculture to work to recapitalize the Farm Credit System. In

particular, I believe that establishing a new secondary market for agricultural loans will help enormously. The FCS needs a vehicle by which risks can be spread out and new capital be obtained through the "AggieMae" concept.

FARMERS HOME ADMINISTRATION

With regard to the Farmers Home Administration (FmHA),it is, at the present time, <u>the major</u> blockage in the delivery system for farm credit in Colorado. I need not remind you of the unavailability of farm ownership loan guarantees in the country. But I must inform you of the disasterous consequences this lack of funding is having on Colorado's producers.

FmHA farm ownership guarantees could expedite many farm loan restructuring efforts in this state. Indeed, without these guarantees, our producers are without **any** alternatives. The FCS needs loan guarantees to enable it to pursue its efforts to renegotiate and restructure its delinquent loans.

In Colorado, $4.3 million was allocated for the Farm Ownership guarantee loan program. Needless to say, in this era of loan restructuring, it doesn't take many loans to utilize that relatively small amount. However, this fiscal year there are, by our reckoning, around $10 million left over in Colorado's guaranteed <u>operating</u> loan program, but they cannot be utilized because <u>policy from the FmHA Administrator's office in Washington refuses to allow these funds to be transferred to the area where there is greatest need and demand.</u>

The Colorado Agricultural Development Authority, a quasi-public agency created to generate capital in the farm and ranch industry, has $100 million of taxable bond funds to purchase FmHA farm ownership loan guarantees. This would, obviously, add significantly to the availability of credit in rural Colorado, but since these funds are tied to FmHa real estate loan guarantees, the money lies idle while our state's farmers and ranchers continue to suffer from a lack of credit.

We know of many Farm Credit System debt restructuring loans that could be made if FmHA loan guarantees were available to assume a portion of the long term debt. These loans, too are on hold until farm ownership loan funds are forthcoming. Increased guarantees could offer much needed capital to private, commercial lending sources as well.

Private banks need FmHA loan guarantees to enable them to continue to loan operating capital to their long time borrowers. Often, commercial lending sources could and would gladly take on partnerships with FmHA were it not for

the multiplicity of delays, regulations, and confusing agency directives. In Colorado, only 8% of our 250 commercial agricultural banks will process FmHA loan guarantees.

Our department has closely examined how FmHA is working in the state. It is not working well uniformly, and in some areas it is not even working minimally. We have learned that some county supervisors are unwilling to make loan decisions at their level. They are sending the applications on to a higher level resulting in unnecessary delays.

My department surveyed the 250 commercial banks involved in farm lending. Of the banks responding, we have learned that the overwhelming majority have a negative attitude toward the agency. But it is important to note that we learned that certain FmHA offices did receive overwhelmingly positive reviews from the local commercial bankers. Northeastern Colorado, for example received very positive reviews. The office in Lamar received high praise for its personnel and actions.

I can only surmise that more needs to be done to foster a better relationship with commercial lending sources, and in spite of efforts at the state level to provide assistance to the agricultural community, we are stymied by the lack of available funds and an uncooperative attitude in the Washington, D.C. FmHA office.

There is yet another problem area with FmHA. This past year, the Colorado General Assembly adopted legislation to require mediation before a loan could proceed into foreclosure. Mediation is a legitimate recourse to immediate foreclosure, but it would seem as though the Administrator of Farmers Home Administration sees mediation as something to be avoided at all costs.

In a memorandum dated August 3, 1987, FmHA Administrator Vance Clark instructed his State Directors that "FmHA is not obligated to participate in ... mediation services, even if the State legislation (authorizing or requiring mediation) purports to apply to Federal agencies". Mr. Clark goes on to say that "State, District and County office personnel **will not participate in any mediation procedures, negotiations, or conferences involving mediation services created under their respective state laws** (emphasis added)." Mr. Clark offers as an explanation the agency's fear that any cooperation with mediators might prejudice the agency's position in a pending civil action.

Based on information I have, the civil action Mr. Clark is using to hide behind came about, in fact, as a result of Mr. Clark's **initial** refusal to participate in mediation

conferences. He is using the civil action to justify and perpetuate his distain for FmHA cooperation with other lending agencies.

Colorado's Farmers Home State Director, Ms. Ruth Fountain, had previously notified the department that although she was unwilling to recognize that state-mandated mediation applied to a Federal agency, she would instruct her state personnel to voluntarily cooperate in Colorado's mediation efforts. Mr. Clark's directive has removed any hope that state mediation legislation will work in the short term. How many farmers and ranchers will be forced to liquidate a potentially profitable operation because of Clark's mean-spirited attitudes expressed in his directive to state offices?

SUMMARY

The farmers and ranchers in Colorado deserve better treatment than what they have received from an inflexible and antagonistic Federal FmHA. We are ready to work with our State FmHA office, and we will offer assistance to the local office directors who will accept it. But we cannot accomplish our fundamental goal of assisting Colorado's farmers and ranchers without the cooperation we need at the Federal level.

We need FmHA farm ownership guarantee funds immediately. Those funds can be made available overnight if the Administrator so decides. We need leadership which will recognize mediation as a viable alternative to foreclosure. We need Congress to call the agency on the carpet again and again until the message gets through. FmHA is the bottleneck in the farm credit delivery system, and it is plugged solid right now as I speak to you.

Congressional efforts to shore up the FCS should enable the system to survive until this farm depression ends.

Our state's producers are not looking for a handout or a bailout. They are looking for the fulfillment of a promise made. They expect and deserve a federal credit assistance system that is affordable, efficient, and equitable.

APPENDIX

THE CONDITION OF COLORADO'S AGRICULTURAL INDUSTRY

Net farm income in Colorado has risen substantially since 1981. In that year, net farm income totaled 230.2 million dollars. In 1985, that figure was nearly 519 million dollars. It would appear on the surface that agriculture is doing fairly well.

But during that time, government payments increased from $47.6 million to $141.8 million. Other farm income (machine hire, custom work, recreational income, and other farm business-related income) increased from $35.5 million to $331 million. Subtract these two categories of income, and you are left with $46 million. This is not a healthy industry.

Production expenses have not risen in an inordinate fashion. The cost of fertilizer has declined significantly as have costs of seed and fuel. But a look at the balance sheet shows other disturbing trends.

Total farm assets have declined during that '81-'85 period from $20.4 billion to under $17 billion. Real estate in particular has dropped one third in value. That figure is a statewide average. Assets in livestock and poultry have remained constant, and crop asset values have risen only modestly. Equity has diminished in Colorado agriculture from $16 billion in '81 to $12.5 in '85.

Worse still. Farm investments are declining. When farmers make money, they're putting it in savings bonds and banks instead of pumping it back into the enterprise. The value of inventory adjustment during the '81-'85 period is an indication of the instability in the industry. In the years 1984 and 1985, farmers and ranchers have been accumulating enormous inventories of produce and selling assets. USDA economists call this income. In reality, it reflects bad times in agriculture.

We do not yet know the 1986 figure for inventory adjustment. I am told it will likely reflect the negative figures of sold assets and continued declines in inventory values for the third year in a row.

U.S. House of Representatives
Committee on Agriculture
Subcommittee on Livestock, Dairy and Poultry
Pueblo, Colorado
September 3, 1987

By

Keith Propst, President
Colorado Farm Bureau
Office: P.O. Box 5647
Denver, Colorado 80217

Home: P.O. Box 218
Merino, Colorado 80741

My name is Keith Propst. I am president of the Colorado Farm Bureau, the largest farm organization in Colorado with 14,730 members. We have a diversified farming operation at Merino, Colorado where our principle farming enterprises are livestock, corn, sugar beets, wheat and hay.

We want to thank Congressman Ben Campbell and members of the subcommittee for holding this hearing. It provides us producers the rare opportunity to have direct input into the policy making process of Congress.

It is especially appropriate the livestock subcommittee hold this hearing in Colorado because about two-thirds of our farm receipts in Colorado are from livestock sales. Even though farm programs do not directly involve livestock, the programs have tremendous impacts upon livestock and other nonprogram crops. The program crops get all the attention and fan fare but account for less than half of the sales. Yet the livestock producers get bashed around when there is a dairy herd buyout or diverted acres are harvested.

<u>Haying and Grazing of Idle Acres</u>

Farm Bureau policy is clear regarding the harvesting of set-aside or idled acres. "Under land diversion or perennial legume and grass rotation programs, no haying or grazing provisions on set-aside or rotated acreage should be permitted during the principal months of the growing season..." "Grazing or harvesting should not be allowed on lands that have been enrolled in the conservation reserve land retirement program." "Prohibit the planting for harvest of any nonprogram crops on the underplanted acres."

Page 2

We think haying and grazing of diverted acres makes a mockery of the whole farm program. The practice is especially injurious to the hay and livestock industries. While we pay program crop producers to idle land for the purpose of getting a handle on our surplus problem we turn around and allow them to harvest those acres to the detriment of vestock and hay producers.

In Colorado this year we had about 25,000 acres which would be affected by the rule to allow haying. It is estimated the price of hay would have been reduced by $5 per ton. With production at about 3,644,000 tons the loss to the hay producers would have been over $18 million.[1]

Livestock prices have increased this past year and what we don't need is increased beef tonnage. Down the road, those beef producers subsidized by the grazing of diverted acres will be flooding the market with beef. Allowing haying and grazing of idled acres can have that precise result. The decision must be made as a national policy, either by Congress or the Secretary of Agriculture, to not allow haying or grazing of idled acres. If Congress expects programs to work then they must be firm and put some teeth in the law.

Dairy Program

We support a dairy price support program which will bring supplies down to demand levels. We favor a system where the price support level would be automatically adjusted according to the amount of net dairy products purchased by the federal government.

We opposed the whole-herd buyout program in the 1985 farm bill in favor of adjustments in the support level to bring supply and demand together. Our idea was to reduce the support price 50 cents a year until government purchases of surplus dairy products decline. We still think that is the proper approach. We do not favor another whole-herd buyout or some contrived scheme of supply management which drives government deeper into our industry. It is time for us to reassess our approaches to dairy programs.

While production has been reduced some under the buyout, the immediate effect was devastating to the livestock sector For example, as of the end of July over 1.1 million head of dairy animal had been slaughtered. Indications are now that there are large numbers of replacement heifers soon to come into production. So there is a good potential of increased production to put us back where we were before the buyout.[2]

1. Exhibit A p. 2
2. Exhibit B

Page 3

Just as a suggestion, it may be time for Congress to start responding to the decreased market demand for butter fat and the increased demand for low fat milk products. Since the price support system is based on butter fat, Congress needs to work with industry leaders to design a system which recognizes market demands.[3]

At any rate, the program must recognize the market if we ever hope to unravel ourselves from this complex and costly program. We think it can be done best, with the least impact on other agricultural enterprises, by a simplified system of reductions in support levels based on government purchases.

Loan Levels

One of the major points we want to make is that loan rates must be held at market clearing levels. This is important for several reasons. It is important in order to be competitive in the world market. It is important in order to reduce our surplus stocks. It is important in order to protect historical production patterns. It doesn't make sense to support wheat, for example, at a high level which results in moving that production away from those farmers that can raise only wheat and move it to some other part of the country where many other crops can be grown.

Finally, it is important to keep loan levels at market clearing levels for the purpose of utilization rather than government storage.

In Summary

The 1985 farm bill set the proper course for farm policy. It should be administered to carry out the objectives of income protection, stocks reduction and export market competitiveness. It also should be given time to work. The lower loan rates are making program crops competitive in world markets and farm income has been supported through target prices.

Agricultural exports are starting to trend higher. Beef is at a 10 year high and wheat and corn exports have turned upward the last two years, but much lower than the peaks of the late 1970's.[4]

Agricultural debt, although not associated with the farm program, is expected to be less than $160 billion in 1987 compared to a high of $203 billion in 1982.[5]

The point is there are some positive signs and current farm policy needs to be given a chance to work. We think commodity prices have an opportunity to adjust under this program to levels that are competitive in the world market, that stocks can be reduced and that producers can prosper.

Thank you for the opportunity to present our views.

3. Exhibit C
4. Exhibit D p. 7
5. Exhibit D p. 4

United States Department of Agriculture

Agricultural Stabilization and Conservation Service

Colorado State ASCS Office
2490 West 26th Ave., Suite 219
Denver, Colorado 80211

June 4, 1987

EXHIBIT A

The Honorable Roy Romer
Governor of Colorado
136 State Capitol
Denver, Colorado 80203

Dear Governor Romer:

I have been told that you are writing a letter addressed to the ASCS State Committee. This letter will be an attempt to persuade the State Committee to change their ruling and permit haying on Conserving Use Acres.

After the decision of the State Committee on May 22, 1987 to retain the rule of "no haying" of CU Acres, I was told that now is the time for cattle feeders to turn up the heat.

First, I must complement you on the thought that the decision for haying and grazing of CU acres should have been made to the Secretary of Agriculture in Washington.

We, as a Committee, have written and asked this to be done for the future. We would appreciate the support of the people who testified before you at the News Conference and I would hope would also include support from your office.

Let us state and examine a few facts relative to the decision made by the State Committee. The technical parts of the program, I will not attempt to explain. The complexities of the various programs should be left to the Program Specialists. I will only try to make general statements:

1) Certification of program acres in Southeastern Colorado was over on June 1. Produc ; of fall wheat and barley could not partake or benefit from a change in the rules. Many inequities would be created that do not now exist.

2) Approximately 989,800 plus acres, which is almost one million acres, is involved in the set aside acres. 65,000 acres are eligible for CU acres that might use alfalfa for a conserving crop. Not all producers could or would take the option of using alfalfa.

3) Producers with CU acres can receive up to $100.00 per acre through deficiency payments before considering any additional monetary benefits from haying and grazing.

ASCS

4) CU acres are permitted to be grazed at any time during the year.

5) Acreage Conservation Reserve which represents a great bulk of set aside acres may be grazed, but not during the 5 principal growing months.

6) Producers of alfalfa, a non-program crop, would be hurt which would tend to force more producers into government programs.

7) It should not be the intent of any farm program to destroy the market of a non-program crop.

8) Hay supplies in Colorado as of May 1, 1987 are 5% below 1986, but 22% above the supply that existed on May 1, 1985. Nationally, hay supplies are up 29% above last year at this time.

9) To my knowledge in Western Colorado, only 3 requests for haying of CU acres have been made which includes Collins Feedlot. Requests to maintain the present "no haying" rules on CU acres have been quite strong in Western Colorado.

10) Wheat growers in Colorado should jealously guard their ability to use summer fallow for set aside acres.

11) Why pasture and no hay? If we pasture CU acres, the feed is used now and only affects the price for the present. Haying permits storage and competes for a place in the market for an entire year.

12) The State Office has approximately 20 to 25,000 acres which would be affected by a change in the haying rules today. The following figures which I will use were used in the hearing May 20, 1987. These figures will only be used to illustrate and are strictly estimates If machinery and labor costs are taken out of supposed income for hay and an amount for grazing is credited, we can expect a net of $30 to $50 per acre. Let us use $40.00 and then we multiply $40 x 25,000 acres which equals $1 million. Many times competitive costs from Kansas and Nebraska were emphasized at the May 20 hearing. No figures were put forward as to how much Colorado's hay should be reduced in price. It was mentioned several times that haying was $10.00 cheaper in Kansas and Nebraska creating a competitive edge for those feeders and processors in the 2 respective states.

Let us lower the price of hay in Colorado just $5.00 to help even competition. $5.00 times 3,644 000 tons of hay equals $18 22 million. This represents a net loss over and above the returns from the hay produced by the CU acres of $17.22 million. This loss would be spread to all hay producers in the state.

Governor Roy Romer
June 4, 1987

Governor Romer, I hope that this letter will point out to you that there are two very valid sides to this issue. A rule change a couple months ago would not have hurt too much at that time, but at that time, there was little or no opposition to the "no haying" rule. In fact, the comments which we received in the State Office were in total agreement to the action taken by the State Committee.

After today, I would hope that you can feel that our office is no further away than the telephone on your desk. I do know that the information we have and explanations we can give can be very beneficial to your office. The State Committee did meet Monday, June 1 and Tuesday, June 2, 1987. Your Press Conference was held Wednesday, June 3. I would ask why was the State Committee and the State Office completely ignored?

Sincerely,

Richard Q. Whitney

Richard Whitney
Chairman, Agricultural Stabilization and Conservation Service

RW:dw

cc: Rep. Scott McGinnis
Sen. Tilman Bishop
U.S. Sen. Tim Wirth
U.S. Rep. Ben Nighthorse Campbell
U.S. Rep. Hank Brown
Sen. Ed Carpenter
Director, Southwest Area

ACROSS STATE LINES

Farmers fear surplus as dairy buyout nears end

By Chuck Raasch
USA TODAY

8/27/87

EXHIBIT B

A government dairy herd buyout succeeded in cutting the milk glut, but farmers are poised for new surpluses.

■ Almost 14,000 dairy farmers quit — paid to do so by the $1.8 billion whole-herd buyout program. They sent 1.5 million dairy animals to slaughter.

■ The milk glut was cut in half. Agriculture Department economists predict a surplus of 5.3 billion pounds of cheese, butter and milk on about 140 billion pounds of production this year — less than half last year's surplus and less than a third of the record 16.6 billion pounds in 1983.

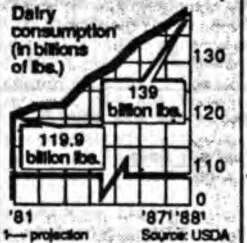
The government program paid farmers, based on their past production, for a promise not to milk cows for five years. Taxpayers paid $1.1 billion; the rest came from a tax on production by the remaining 160,000 dairy farmers.

As the buyout ends this month, production has leveled off; less tax money is being spent to buy and store surplus milk; the 10.4 million cows on farms are the smallest number on record; and prices paid to farmers are up slightly.

Taxpayers will pay about $1.2 billion to buy and store this year's surplus, which goes to school lunches, the poor and other government programs. Last year, it cost $2.3 billion.

Consuming more milk

Milk production is down but consumption of milk-based dairy products has increased dramatically.



By Elys McLean-Ibrahim, USA TODAY

"I think the program has been a success," said David Dyer, head of a panel of 18 farmers created by the 1985 farm bill to plan long-term dairy policy. "But whether we can sustain the kind of flattening-out in production and the increase in consumption we have seen remains to be seen."

Dairy farmers fear another glut. Reasons:

■ The pool of replacement heifers is way up.

■ The ratio between the cost to feed a cow and the price a farmer gets for milk is the most favorable for farmers at any time in the 1980s.

■ Milk production appears to be picking up.

■ If Agriculture Secretary Richard Lyng imposes a 50-cent cut in the dairy support price Jan. 1 — as expected — farmers may produce more to make the same money.

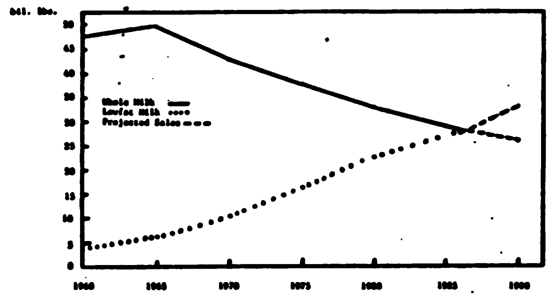
Under the farm bill, USDA can cut support prices 50 cents a year through 1990 if the surplus is more than 5 billion pounds. Support prices, over $13 per hundred pounds of milk in the early 1980s, could fall to $9.60 by 1990.

Retail dairy prices have been relatively stable in the 1980s. That, plus a $200 million-a-year promotion campaign and a health food revival, has pushed consumption up 15 percent since 1981.

EXHIBIT C

THE DEMAND SHIFT IN FLUID MILK SALES *One of the dramatic changes in milk consumption that has been occurring for decades but has been "turned off" by many of the nation's dairymen is the shift from whole milk to lowfat milk. If the current trends continue --and there is nothing on the horizon to indicate otherwise -- lowfat sales will exceed whole milk sales in 1987 for the first time in the history of the U.S. dairy industry. (Chart 1)*

Chart 1. Fluid Milk Sales, Whole and Lowfat; 1960-86; Projected to 1990.



TOTAL SALES TO CONTINUE UP *The change shown in Chart 1 is a demand shift. When the projected whole milk and lowfat milk sales are combined, total demand is expected to continue up (Table 1). Finding a home for the increasing volume of milkfat removed from fluid milks, however, creates an offsetting problem.*

Table 1

Whole Milk and Lowfat Milk Sales **

Year	*Total Sales bil. lbs.*
1986	*56.7*
1987	*57.3*
1988	*58.0*
1989	*58.8*
1990	*59.6*

*** Estimated*

POPULATION GROWTH AND SALES *A major factor in the sale of most products is market size. The dairy industry has been fortunate to have a large segment of the population using dairy products plus an expanding market for its products. The market base or population in 1986 was 35 million people larger than it was in 1970; an increase of 17 percent. During this same period, commercial use of dairy products increased 21.4 billion pounds for a gain of 19.6 percent.*

ECONOMIC RESEARCH DIVISION
AMERICAN FARM BUREAU FEDERATION
DATE: JULY 24, 1987
CONTRACT: ROSS C. KORVES

EXHIBIT D

ARE OUR PROBLEMS OVER?

INTRODUCTION

With higher livestock prices, greater farm income, increased exports, lower per unit input costs and expected lower carryover supplies of some commodities, the quest on is often asked, is the "crisis" over? That question can, and does, precipitate endless arguments, but whether things are better is largely determined by what was believed to be the problems. The purpose of this analysis s to take a look at what has often been thought of over the last several years as "the problem" and make some judgment of whether things are better, about the same or worse.

SUMMARY

While gross farm income was down some in 1986 and will be again in 1987, the various measures of net farm income are all at record highs and will likely remain so for the rest of 1987 and into 1988.

By the end of 1987, agricultural debt will likely be down more than 20 percent from the peak reached in 1982 and will decline again in 1988. Asset values have stabilized at about 30 percent less than the peak reached in 1981. Any increases in asset values will be slow in coming. The debt to asset ratio will decline in 1987, but still be about 30 percent higher that the level of the late 1970s.

Interest rates on nonreal estate agricultural loans at banks will average about 10 percent for 1987, the lowest average since 1978 and about half the peak of 18.5 percent in 1981. Lank Bank interest rates are coming down much more slowly, but did not have the sharp peaks.

Interest expense for agriculture will be about $14 billion for 1987, down 35 percent from the peak in 1982. The debt-to-net cash income ratio for 1987 will be about 3.2, down from 5.8 in 1981.

Farm production expenses are likely to be about $120 billion for 1987, down 15 percent from the peak in 1984. Production costs for most commodities have been trending down for the last three years.

The trade weighted value of the dollar in the first four months of 1987 was down about 30 percent from the the yearly average high in 1985. The value of the dollar versus those countries we trade agricultural products with is down about 15 percent. The dollar is down about 14 percent versus our major agricultural customers and 10 percent against our major competitors.

The dollar value of agricultural exports is likely bottoming out this fiscal year after six years of declines. Growth in value of exports will be slow for the next several years. The agricultural trade balance is also on the upswing.

Exports are up for most of the major export commodities, except for soybeans. Beef exports are at 10-year highs, while pork is near a 10-year low.

Prices for corn, wheat and soybeans appear to have bottomed, but are at 10 year lows, with only modest prospects for improvement. Cotton prices have done considerably better. Hog and cattle prices are going nicely now, with hog prices likely headed lower and beef prices steady to higher. Average milk prices have slid modestly lower in the past few years and will likely continue that trend.

From all this, some broad conclusions can be drawn about the situation to date and the near term outlook. Farm income by all measures held up well in the 1981 to 1984 period and has shown great improvement in the last three years, and that will likely continue into 1988. This has been caused by a combination of large government payments for program commodities, higher livestock prices and sharply reduced production expenses.

Debt load is being worked down. This in combination with lower interest rates has cut interest expense by one-third. This has lessened the debt problem, but a substantial amount of problem debt must be worked through over the next two to three years.

While the value of the dollar is down sharply overall, it is down much less in agricultural trade terms and down even less when measured against our competitors. The value of the dollar was overblown as a problem a few years ago and is now overblown as a benefit. Exports have, in general, turned the corner, but we are a long ways from being where we need to be.

Except for cotton, where U.S. and world stocks are down sharply, major crop prices have built a base, but there is no reason to believe that prices will move sharply higher. The livestock business will continue to prosper, but lower hog prices will lessen profitability.

FARM INCOME

There is no better place to start looking at agriculture than with farm income. Table 1 shows the farm income numbers for the most often used measures from 1977 through 1987.

TABLE 1
FARM INCOME 1977-1987

YEAR	GROSS CASH INCOME	NET INCOME	NET CASH INCOME	NET CASH INCOME BEFORE INTEREST
	BILLION DOLLARS			
1977	99.3	19.9	27.8	36.3
1978	117.3	25.2	33.1	43.3
1979	135.1	27.4	33.4	46.5
1980	143.3	16.1	34.2	50.5
1981	146.0	26.9	32.8	52.7
1982	150.5	23.4	38.0	59.8
1983	150.4	12.7	37.1	58.5
1984	155.3	32.2	38.9	60.0
1985	156.6	32.1	47.0	65.7
1986	153.0	38.0	53.0	68.7
1987*	149.0	42.0	54.0	68.0

* Projection
Source: USDA

Most people assume that farm income went down in the early 1980s and stayed down and that accounted for most of the problems in agriculture. The data do not support that conclusion.

As shown in Table 1, gross cash income, all cash income to agriculture including government payments, trended higher through 1985. The lower gross cash income in 1986 and 1987 reflects the relatively large acreage reduction programs and lower market prices resulting from implementation of the 1985 farm bill.

Net farm income showed some weakness in 1982 and 1983, but had substantial improvement by 1984. Net farm income includes changes in inventories, and that accounts for the low net farm income number in 1983 as the PIK program and dry weather resulted in small crops and a huge drawdown in end-of-year stocks of grains.

The most often used farm income measure is net cash income, which is gross cash income minus cash outlays. The difference between this and net farm income is that it does not include depreciation and changes in inventories. This measure shows income up every year since 1977 with the exception of 1981. More importantly, the plateau of 1982, '83 and '84 was clearly broken by the up move in 1985 that continued in 1986 and 1987. With gross cash income flat to down in those three years, the big change was obviously lower cash outlays for production and interest expenses.

The last income measure shown is net cash income before interest expense. This reflects the income picture seen by the portion of agriculture with relatively low debt loads. That portion had 10 years of uninterrupted improvement in farm income. That is why there was, and is, a tremendous disparity of incomes among farmers within the same community.

DEBTS, ASSETS AND INTEREST EXPENSE

Debt load, asset values and interest expense have been fingered by many as "the problem" for agriculture in the 1980s. Table 2 shows debt load, asset values, debt-to-asset ratio, interest rates, interest expense and net cash income-to-debt for 1977 through 1987.

TABLE 2

MEASURES OF DEBT LOAD AND INTEREST RATES
1977 THROUGH 1987

YEARS	AGRICULTURAL DEBT EXCLUDING HOUSEHOLDS BIL. $	VALUE OF FARM ASSETS BIL.$	DEBT-TO-ASSET RATIO	INTEREST RATES COMMERCIAL BANKS NON-REAL ESTATE	INTEREST RATES FEDERAL LAND BANK	INTEREST EXPENSE BIL. $	NET CASH INCOME-TO-DEBT RATIO
1977	114.9	656.7	0.175	8.8%	8.4%	8.5	4.1
1978	131.9	783.7	0.168	9.6	8.4	10.2	4.0
1979	155.2	918.1	0.169	11.9	9.2	13.1	4.6
1980	170.4	1,003.2	0.170	15.2	10.4	16.3	5.0
1981	188.8	1,005.2	0.188	18.5	11.3	19.9	5.8
1982	203.6	977.8	0.208	16.7	12.3	21.8	5.5
1983	202.4	956.5	0.212	13.5	11.6	21.4	5.5
1984	198.7	856.1	0.232	14.1	11.7	21.1	5.1
1985	192.1	771.4	0.249	12.8	12.3	18.7	4.4
1986	177.0	711.0	0.249	11.5	11.8	15.7	3.6
1987*	158.0	711.0	0.222	10.1	11.7	14.0	3.2

* Projection
Source: USDA; Federal Reserve; Farm Credit Administration

Agricultural debt, excluding households, totaled $177 billion at the end of 1986, down about 13 percent from the 1982 peak of $203.6 billion. If the current forecast holds, debt will be down another $19 billion by the end of 1987 and will continue downward in 1988.

Unless conditions change, asset values have probably stabilized at about $700 billion. This is a 30 percent decline from the 1981 peak of about $1 trillion (yes, that is a "t" on the front end of that word). While asset values have probably quit going down, there is no indication that they will increase by much over the next few years.

The debt-to-asset ratio, projected at 22.2 percent for the end of 1987, is also on the way down after peaking out at about 25.0 percent in 1985 and 1986, but it is a long ways from the 1980 level of 17.0 percent.

Current indications are that the average bank interest rate for nonreal estate agriculture loans will be about 10 percent for 1987, the lowest rate since 1978 and about half the 1981 peak of 18.5 percent. Borrowers from the Farm Credit System have not had much of a decline in interest rates, but also did not have as high a peak in 1981. Farmers that are borrowing now or that can renegotiate old debt are having substantial savings in interest compared with the past few years.

The combination of lower interest rates and lower debt load has led to a sharp decline in interest expense for agriculture. The projected expense of $14 billion for 1987 is about the same level as 1979.

The last measure of the debt situation is the ratio of net cash income-to-debt, how many years of net cash income would it take to pay all of the outstanding debt. If the debt and income projections for 1987 hold, the ratio will be 3.2 compared to the peak of 5.8 in 1981. This doesn't mean that everything is okay, only that we are in a lot better shape than in 1981.

PRODUCTION COSTS

Earlier, we looked at gross cash income and several estimates of net income. Production expenses are also important in judging what has happened in agriculture. Table 3 shows total farm production expenses and the average per unit cost of producing several commodities.

TABLE 3
FARM PRODUCTION EXPENSES AND
PER UNIT COSTS FOR SELECTED COMMODITIES
1977-87

YEAR	FARM PRODUCTION EXPENSES BILLION $	TOTAL CASH EXPENSES CORN $PER/ACRE	WHEAT $PER/ACRE	COTTON $PER/ACRE	HOGS $PER/CWT	CATTLE $PER/CWT.
1977	88.9	129	49	192	NA	NA
1978	103.2	134	52	185	34	46
1979	123.3	152	61	216	38	63
1980	133.1	183	74	227	41	70
1981	139.4	205	88	289	45	69
1982	139.4	209	86	312	44	65
1983	139.8	200	92	300	47	67
1984	142.4	208	92	311	47	.67
1985	133.6	205	90	306	40	64
1986	123.1	189*	82*	282*	38*	60*
1987	118.0*	186*	81*	280*	38*	60*

NA- Not Available * Forecast
Source: USDA

Farm production expenses increased rapidly from 1977 through 1981, but were relatively stable from 1981 through 1984. Even the reduced production associated with PIK in 1983 had very little impact on total expenses. The declines over the last three years are extremely important. While they partly reflect lower acreage farmed due to farm programs, a substantial part of the decline reflects lower input prices and the use of less inputs per unit of output.

Production costs for the five commodities shown in Table 3 went up rapidly from 1979 through 1981 and had more moderate increases or no increases from then until 1984. Production costs have been trending down since then. The 1986 and 1987 numbers may show further declines when additional information on costs become available.

VALUE OF THE DOLLAR

People who knew little about international trade were quick to identify the high value of the dollar as "the problem" of the 1980s for agriculture. Table 4 shows the value of the dollar using several popular measures.

TABLE 4
VALUE OF THE DOLLAR
1977-86

YEAR	REAL TRADE WEIGHTED VALUE MARCH '73=100	-- INDEX OF REAL VALUE--APRIL 1971=100 -- ALL AG TRADE	MAJOR CUSTOMERS	MAJOR COMPETITORS
1977	93	75	75	94
1978	84	70	70	90
1979	83	71	71	90
1980	85	72	72	92
1981	101	79	80	97
1982	112	87	87	110
1983	117	91	91	119
1984	129	97	97	129
1985	132	101	102	136
1986	103	87	90	123
1987*	92	85	88	122

*4 Months
Source: Federal Reserve; USDA

The broadest measure of the value of the dollar is the traded weighted value. This takes into consideration the value of the dollar versus the currencies of the countries with which we trade, weighting each by the amount of trade. The average value for the first four months of 1987 was down 30 percent from the average of 1985 and was at the same level as the average for 1977, before the sharp plunge in value in the late 1970s.

A more narrow measure of the value of the dollar is based on agricultural trade, both imports and exports. This value in early 1987 is down about 15 percent from the average of 1985.

The value of the dollar versus our major agricultural customers and our major competitors is probably the best measure for our purposes. In early 1987, the dollar was down 14 percent as measured in our customers' currencies and about 10 percent when measured against our major competitors.

EXPORTS

Along with the value of the dollar, exports have often been identified as "the problem." Table 5 shows the value of exports, the agriculture trade surplus and exports of selected commodities for 1977 through 1987.

TABLE 5
AGRICULTURAL EXPORTS 1977-1987

YEAR	US AG. EXPORTS FISCAL YEAR Bil. $	AG. TRADE BAL-ANCE Bil.$	------VOLUME EXPORTED BY MARKETING YEAR------ CORN Mil. Bu.	WHEAT Mil. Bu.	SOYBEANS Mil. Bu.	COTTON Mil. Bales	RICE Mil. Cwt.	BEEF Mil. Lbs.	PORK Mil. Lbs.
1977	24.0	10.6	1,909	1,124	700	5.5	72.8	98	294
1978	27.3	13.4	2,124	1,194	739	6.2	76.9	160	288
1979	32.0	15.8	2,415	1,375	875	9.2	84.5	167	291
1980	40.5	23.2	2,408	1,514	724	5.8	91.4	173	252
1981	43.8	26.6	2,010	1,771	929	6.6	82.0	216	307
1982	39.1	23.6	1,834	1,509	905	5.2	68.9	250	214
1983	34.8	18.5	1,902	1,429	743	6.8	70.3	272	219
1984	38.0	19.1	1,865	1,424	601	6.2	62.1	329	164
1985	31.2	11.5	1,241	915	740	2.0	58.7	328	128
1986	26.3	5.5	1,500	1,015	700	6.7	80.0	521	86
1987	26.0	6.0	1,600	1,225	650	6.5	78.0	525	100

Source: USDA

The value of agricultural exports has been on a constant decline since the peak of $43.8 billion in 1981. But the bottom has been hit. The current estimate of $26 billion for fiscal year 1987 may be revised up slightly as export volumes and prices come in slightly higher than earlier estimated. The same holds true for the agriculture trade balance.

Corn and wheat have made the turn toward higher export volumes, but are still at considerably lower levels than the peaks of the late 1970s and early 1980s. Cotton and rice exports have bounced back more sharply. Soybeans continue to be in trouble. For meat, beef is at 10-year highs, while pork is at 10-year lows.

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MARKET PRICES

Some people have focused solely on market prices as "the problem." Table 6 shows national average farm market prices for 1977 through 1987 for selected commodities.

TABLE 6
U.S. AVERAGE PRICES RECEIVED BY FARMERS
FOR SELECTED AGRICULTURAL COMMODITIES
1977-87

	MARKETING YEAR					CALENDAR YEAR		
YEAR	CORN $/BU.	WHEAT $/BU.	SOYBEANS $/BU.	COTTON CENTS/LB.	RICE $/CWT.	BARROWS & GILTS MARKETS $/CWT.	OMAHA CHOICE STEERS $/CWT.	ALL MILK $/CWT
1977	2.02	2.33	5.88	52.1	9.49	41.30	40.38	9.81
1978	2.25	2.97	6.66	58.1	8.16	48.46	52.33	10.67
1979	2.52	3.78	6.28	62.3	10.50	42.48	67.75	12.11
1980	3.11	3.91	7.57	74.4	12.80	40.04	66.96	13.05
1981	2.50	3.65	6.04	54.0	9.05	44.45	63.84	13.77
1982	2.68	3.55	5.69	59.1	8.11	55.44	64.22	13.61
1983	3.25	3.53	7.81	66.4	8.76	47.71	62.36	13.58
1984	2.62	3.38	5.85	58.7	8.06	48.86	65.34	13.46
1985	2.23	3.08	5.05	56.5	6.53	44.77	58.37	12.75
1986	1.55	2.42	4.80	52.2	3.85	51.19	57.75	12.48
1987*	1.80	2.40	4.90	54.0	4.00	49.00	64.00	12.50

Source: USDA
*AFBF Projections

As everyone already knows, for the grains, soybeans and cotton, prices have been trending down for the last several years. Current indications are that the down trend is over and a base is being built. There is probably a good connection between the end of the slide in grain prices and the end of the slide in asset values.

Hog prices have had a mind of their own following the more typical four-year price cycle. The current profitability surge has been helped by the lower corn prices. Hog prices should move down again as supplies build.

Fed cattle prices are now recovering after two very tough years, and profits are also benefiting from the lower corn prices. Cattle prices should be on the stable-to-up side of their cycle.

The all-milk price pretty well reflects the freezing of the price support in the early 1980s and the down moves of the last few years. Milk prices will likely continue to move moderately lower.

crisisover720

ROCKY MOUNTAIN FARMERS UNION

OFFICE OF THE PRESIDENT

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Statement of
JOHN STENCEL
President of Rocky Mountain Farmers Union

Presented to
The Subcommittee on Livestock, Dairy, and Poultry
U.S. House Committee on Agriculture
Pueblo, Colorado
September 3, 1987

My name is John Stencel, and I am president of Rocky Mountain Farmers Union, a general farm organization representing some 16,500 farm and ranch families in Colorado, Wyoming, and New Mexico.

First of all this morning, I would like to thank you, Mr. Chairman, and the distinguished members of this subcommittee, including our own Congressman Ben Nighthorse Campbell, for holding this hearing in Colorado. It has been a long time since we had a Congressional field hearing on agriculture in Colorado, and this makes it a very special event for us. We have another special event going on around you, the Colorado State Fair, and I hope you will have time with your busy schedule to visit our State Fair.

Immediately before the Labor Day recess, you passed a bill pertaining to the Farm Credit System, HR 3030, which contains many features we commend you for. The provisions on stock protection, borrower's rights, debt restructuring, first right of refusal, homestead exemption and others, we feel, are the makings of a successful restructuring of the ailing Farm Credit System. However, for any rebuillding of the Farm Credit System to occur, there must be an infusion

of capital sufficient to make the system viable again. Without sufficient funding, all the other provisions of the bill will be virtually meaningless because the system will fail.

Our members feel very strongly that any interest rate buydown included in the Farm Credit restructuring should extend to all producers, not just a select few. The benefits of Congressional action on behalf of the FCS should be equitable to all borrowers.

In addition, if a board is created to oversee the capital infusion and a secondary ag lending market, our members feel there should be farmers and ranchers represented on the board. The Farm Credit System was intended to be a member-owned cooperative, and if it is to remain true to the cooperative nature, there should be bonafide farmers and ranchers on this board. Of the seven presidential appointees, we feel four should be farmers or ranchers.

Local control is also very important to retaining the cooperative nature of the system. We commend your efforts at securing local control on lending decisions, but by closing down the regional banks and consolidating them into six regional "service centers," it is our feeling that you will be consolidating power in the hands of the Farm Credit Administration--a move which would work against the initiative for local control.

The Farm Credit System in the six years of the farm crisis has accumulated over two million acres of land in inventory acquired from broke farmers. The federal government through the Farmers Home Administration has also acquired similar acreages of farmland. This land should be redistributed to people who will live on the land and establish viable new farming operations. For young and beginning farmers, depressed land prices offer the opportunity of a lifetime to buy in at the bottom. The prospect of survival for many farm communities depends

etting the land to those who will be part of the community's future. The has come to not only refinance and restructure Farm Credit, but also, through w Homestead Act, to repopulate and resettle rural America.

HR 3030 with suitable modifications and sufficient funding could solve the -term problems of the Farm Credit System. However, in order for any farm t system to work properly, farmers and ranchers must have parity of income. y of income can only be achieved if farmers receive parity prices for their nodities.

The health of the agricultural sector of the American economy depends arity prices for producers. This includes, of course, the livestock, dairy, and ry producers. Historically, livestock producers have not received parity prices heir products unless grain producers are also receiving parity prices for feed s. Cheap grain inevitably leads to cheap beef, mutton, milk, and poultry.

The best, cheapest, and most effective way of achieving parity prices for commodities is supply management. There is a proposal before you that boost farm prices at the farm gate while at the same time reducing the rnment expenditures on agriculture. This bill is the "Save the Family Farm Act," etimes known as the Harkin-Gephardt bill, and I hope you will give it some y and consideration. At out last RMFU convention, the members adopted ecial order of business which states: "Immediate action is needed to reverse failed policies contained in the 1985 Farm Bill and its predecessors. We urge 100th Congress to immediately enact the Harkin-Gephardt "Save the Family n Act."' If enacted by Congress and approved by producers voting in referendum, program will institute policies which will enable producers to earn a profit e marketplace while mandating supply-management production.

The important provisions in this act supported by the Rocky Mountain Farmers Union include:

-Establishing commodity loan rates at 70 percent of parity initially with the rates increasing by one percentage point per year until the year 2000;

-Requiring the Secretary of Agriculture to establish a national marketing quota for each commodity based on demand estimates;

-Initiate marketing certificates to be used in selling commodities off the farm; and

-Establishment of a national "farmer disaster reserve" to which each producer will be required to contribute.

A large step in the short term toward achieving parity prices for farmers would be a repeal of the Findley Amendment. As you know, the Findley Amendment allows the Secretary of Agriculture to arbitrarily and unilaterally lower the loan rate on commodities as much as 20 percent below the statutory levels set by the 1985 Food Security Act. A repeal of the Findley Amendement would provide farmers with a more equitable price, and in addition, provide about $4 billion in budgetary savings--well more than the budget reconciliation target of $1.2 billion. These savings would accrue because raising the loan rate would decrease the amount of deficiency payments made to farmers. Since the loan rate sets the floor of the market price, raising the loan rate would raise the market price and lessen the gap between the market and the target price.

For a supply management program to work and work well, cross-compliance is a necessity. At the present time, we have states that are allowing haying and grazing of set-aside acres, and states that are not allowing this practice. This puts farmers in the non-grazing states, such as Colorado, at a competitive disadvantage. We would prefer that all states disallow haying and grazing of set-aside or conservation-use acres. If some states are determined to allow haying and grazing, all should

be allowed to hay and graze without penalty in order to insure equitable treatment for all farmers.

Another issue in Colorado concerning livestock producers are grazing fees and multiple use of public lands. Our policy, written by our members states: "We believe that public lands must remain open to fulfill the multiple-use concept. Public lands are an annually renewable resource harvested by range sheep and cattle operations. We recommend that Congress maintain its commitment to multiple-use of public lands by continuing the current grazing fee formula enacted in 1978, which allows stockmen to utilize the renewable rangeland resource."

"To maintain viable ranching operations, stockmen must be allowed to travel by mototized vehicle, control predatory animal populations, continue range improvements develop water resources, and make sound economic decisions."

In addition, our policy states: "We urge Congress to control the importation of livestock and livestock products which is causing serious damage to our domestic industry. We recommend that Congress incorporate the following steps to protect American livestock producers as well as consumers:

-Investigate the impact of pricing practices of foreign countries on United States markets.

-Require conspicious labelling showing point of origin, date of kill, whether it was frozen, and the dates it was subsequently frozen.

-Impose countervailing duty to offset subsidies paid to foreign livestock producers.

-Require that 100 percent of all meat imports be inspected and meet the same sanitary and quality standards as American-produced red meats.

-Require that the amount of meat imports be reported weekly, the same as the weekly slaughter report."

Furthermore, our national policy states: "We urge price stabilization programs modeled after the Wool Incentive Program for all livestock." We also urge the USDA to prepare quidelines for a computer-based livestock marketing system. We feel that livestock producers should be able to take advantage of some of the same marketing techniques that grain producers use, including collective marketing and marketing cooperatives.

Thank you very much for this opportunity to appear before you today and give the views of the Rocky Mountain Farmers Union.

ROCKY MOUNTAIN FARMERS UNION

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Statement of
CHARLES KLASEEN
Crawford, Colorado

Presented to
The Subcommittee on Livestock, Dairy and Poultry
U.S. House Committee on Agriculture
Pueblo, Colorado
September 3, 1987

Good morning, Mr. Chairman, I am Charles Klaseen. I am a cow/calf operator from Crawford, Colorado, which is in Delta County on the Western Slope. I run 500 cows and 200 yearlings and irrigate 2000 acres of hay. I feel honored to have the opportunity to testify before this distinguished ag committee.

As you know, agriculture is in the worst depression since the 1930's. I was nearly a victim of America's lack of a comprehensive and effective agricultural policy, as well as its poorly conceived foreign trade policy and Federal Reserve monetary policy. All these bad policies are tearing the heart out of the principles that built America's free capitalistic form of business.

First of all, our agricultural program is too expensive for the taxpayer, and does nothing to control production. Any farm program should use supply management, both to save tax dollars and to give the farmer a fair return on investment.

I think this committee should look at a policy similar to the Harkin-Gephardt bill. The 1985 farm bill does nothing to control production or get a fair price for farmers.

Secondly, we cannot have a free trade policy for the United States. Our farmers cannot compete with farmers in underdeveloped countries, unless our standard of living falls to the level of theirs. The European Economic Community sees the value of protecting their farmers. We should do the same.

Third, agriculture does not have a decent source of credit. I am one of the few fortunate ones in my area to get a loan recently, and I went through fourteen months with no credit in the process. If I hadn't have had extra assets, I wouldn't have mdae it through that period. I am the only farmer in Delta County to have successfully obtained a FmHA guaranteed loan. Because of the lack of available credit, we have lost five or six big family operators in my area in the last eighteen months.

Today there are nine thousand to ten thousand fewer head of cattle in Delta County and surrounding parts of Montrose and Gunnison counties than in the past. This is due to the loss in the last two years of family farm operations that have been in these families for two or three generations. All are within forty miles of my place.

The guaranteed loan program is not working in our area. I feel this is due to two major factors: 1. The regulations are far too complex and the amount of paperwork required is nightmarish. During the fourteen month period it took to get my loan processed, I had five different loan officers at the Farm Credit Services This made the process all that more difficult. 2. There is a lack

of cooperation between lending agencies. This program is designed to work between FmHA, Farm Credit and commercial banks. If all lenders do not work cooperatively, the program is bound to fail.

When credit is available, it is too expensive. Any bailout of the Farm Credit System should include an interest rate reduction to the borrowers. This should be extended to all borrowers.

In our area, hay prices have dropped to the lowest levels in several years. Pasture will barely pay the water assessment. Feed grain producers are suffering because of low prices. Cheap grain eventually makes cattle cheap. Right now the cattle people are getting by, but if grain prices continue to drop, cattle prices will follow.

Now is time to worry about the people on the land, rather than the consumers. If we break the people on the land, the consumers will pay and pay dearly. Agriculture is one of the few industries we have that generate new wealth. If we break our agricultural industry, the entire national economy will suffer.

Thank you for this opportunity to present my views.

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Statement of
VERNON FRANKE
Akron, Colorado

Presented to
The Subcommittee on Livestock, Dairy and Poultry
U.S. House Committee on Agriculture
Pueblo, Colorado
September 3,1987

Mr. Chairman, my name is Vernon Franke, and I am a cow/calf producer and grain farmer from Akron in eastern Colorado. I run 450 cows and farm 1200 acres, raising wheat and feed grains.

As a cow/calf operator, I am concerned with the commodity futures market. Our Rocky Mountain Farmers Union policy states: "There should be an investigation into the total marketing system, including the commodity futures markets and the activities of commodity futures traders and speculators on both crop and livestock prices, leading to laws which will curb abuses in the current system." I feel that the futures markets are not helpful to the family-sized cow/calf operators, and futures trading encourages speculation and price manipulation by large volume traders.

I am also concerned with concentration of ownership in the meat industry. Recently ConAgra, a giant food corporation, purchased Montfort of Colorado, a large cattle feeding, meat packing and processing company in eastern Colorado. Further

concentration of power within the meat processing industry will lead to price fixing, monopolies in both buying and marketing, and increased financial pressure on small and medium sized cattle raisers and feeders. Anti-trust laws should be vigorously enforced in the food industry, and investigations should be undertaken to stop unfair trade practices by large corporations in the food industry.

Credit is a problem in the cattle industry, as well as to grain producers. The Farm Credit Service has not reduced their interest rates significantly to borrowers in eastern Colorado. Our interest rate is still about eleven percent, which is too high to enable a producer to obtain a reasonable margin of profit. Any bailout of the Farm Credit System should include an interest rate reduction for all borrowers, and should not just be a bailout for the bond holders.

One of the problems we face in the cattle industry in Colorado is brucellosis eradication. Our National Farmers Union policy states; " Recognizing that brucellosis continues to be a problem for livestock producers, Congress should provide adequate funding for the eradication of this disease." Brucellosis could be, and should be, entirely eradicated throughout the U.S. This would be cheaper, in the long run, than eradicating it in one area, and through lack of vigilance, allowing it to flourish in another. The eradication program should be applied uniformly in all states.

Imports of meat should be controlled so as not to depress the livestock market. Our Rocky Mountain Farmers Union policy

states: "We strongly urge Congress to pass legislation to label the origin of all imported foods. All imported foods must come under the same high standard of production and inspection as domestic meats." Allowing imported meats to be inspected at lower standards puts our domestic meat producers at an unfair competitive disadvantage. In addition, lower standards on imports puts our American consumers' health at risk. Any standards applied to imported meat should include pesticide and other chemical contamination standards as well as quality grading.

Thank you for giving me the opportunity to express my concerns to you today.

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Statement of
ELMER JOHANNSEN
Wellington, Colorado

Presented to
The Subcommittee on Livestock, Dairy, and Poultry
U.S. House Committee on Agriculture
Pueblo, Colorado
September 3, 1987

I am Elmer Johannsen from Wellington, Colorado. I operate a family dairy farm there and have been in the dairy business some forty years. We presently have a herd of 210 milking cows. I am a member of Western Dairymen's Cooperative Inc. and Rocky Mountain Farmers Union.

For those of you on the panel who are not from Colorado, agriculture is Colorado's third largest state industry and contributes almost $9 billion to the state economy. Dairymen in Colorado produced 1.188 billion pounds of products in 1986, and this accounts for $157.4 million in total cash value.

Currently in the United States, we have a budget deficit of over $120 billion dollars, and we have a trade deficit of over $140 billion. Estimating costs at $140 million per billion pounds of CCC purchase of milk, we have a dairy program that is costing $1-2 billion.

We need a dairy program which accomplishes a reduction in milk supply and also reduces the budget deficit and will help reduce the trade deficit.

I advocate a supply management concept. National Farmers Union policy states: "Farmers Union supports the concept of a long-term supply management for dairy. We support implementation of either a voluntary or mandatory supply management program any time CCC purchases exceed 5 billion pounds.

A mandatory program would go into effect with a simple majority vote of individual dairy producers.

If a mandatory program is in effect, we recommend that:

a. The base be set at the preceding year's production history.

b. Producers who participated in the Dairy Termination Program would have no base history." (for the complete National Farmers Union Dairy Policy, see Exhibit A attached.)

I personally advocate a program somewhere between the voluntary and mandatory stages where stability would be provided by supply management, but provision would be made for enough flexibility to produce for export markets.

Specifically, I favor an allotment system with the following recommendations:

1. Cap the value of allotments at a reasonable figure. Allotments are a vehicle for setting production levels and transferring the same. They should not be traded as if they were a stock market item.

2. Set aside 15 percent of allotment transfers to be offered to new and/or young producers. Establish a dairy board or another similar organization as a watchdog agency and, where no co-op is involved, the dairy board will handle allotment transfers.

3. Regionalize allotments through transfers to allow production in areas where needed. It is easier to transfer paper than fluid milk.

4. Provide for allotment adjustment annually to keep allotments in use. This would be an ongoing annual process. Underproduction would result in the loss of percentage of the base.

5. Prices should be established on a two-level pricing system, based on a domestic and an export value. If the price at the export level is attractive to a producer, allow him to produce at this value. This milk would not be subsidized in any way that would cause problems with international trade. The domestic value should be set at no less than 71 percent of parity.

6. Further the USDA Dairy Export Incentive Program to strive for export markets.

7. Administer the program through a Dairy Commission elected by actual producers, and finance it with a milk payment checkoff. If we can take care of our own program and finance it, hopefully, we will have a long-range program not subject to pressures from changing administrations in government.

We have heard the argument that an allotment program would discriminate against new and young producers coming into the industry. I think these seven points address this concern, and I submit that the present program certainly makes it impossible for a new producer to start and survive. Threats of lower prices and the uncertainty of changes in program is not an incentive to beginning producers.

In addition, we must re-evaluate the allocation of dairy research funds. In 1986, of the $26 million the USDA allocated, $24.5 million went for production research. Only $1.5 million went to product development. Long ago we learned how to overproduce. We are still novices at developing our product and selling it.

The Dairy Termination Program was successful but temporary. We now need a continuation that would be cost-effective. We know we have enough marginal cows in the nation to do away with any surpluses. The allotment program would accomplish this reduction. No producer will milk marginal cows when faced with a production limit.

The present program provides for a price cut of 50 cents/cwt if CCC projected purchases exceed 5 billion pounds. Price cuts should not be implemented if CCC purchases less import milk equivalent values are less than 5 billion pounds. For example, if projected CCC purchases are 5.5 billion pounds and imports are 1 billion pounds (ME), then this should be considered as an actual surplus of 4.5 billion pounds.

An allotment program such as the one I have just suggested would increase dairy farm income, decrease government costs, and address the problems of market instability and program inconsistency. It would allow the opportunity for new, young producers to enter the industry as older ones leave. It would also provide the opportunity to move forward in our efforts to control increasing budget deficits and trade deficits.

Thank you for the opportunity to come here and express my views.

(Attachments follow:)

EXHIBIT A
NATIONAL FARMERS UNION DAIRY POLICY

The dairy termination program has been successful in reducing government purchases of surplus dairy commodities but has not been successful in improving dairy farm income. The National Farmers Union recommends that reconsideration of the 1985 Food Security Act include new efforts to improve family dairy farm incomes.

Farmers Union supports the concept of a long-term supply management program for dairy. We support implementation of either a voluntary or mandatory supply management program any time CCC purchases exceed 5 billion pounds.

A mandatory program would go into effect with a simple majority vote of individual dairy producers.

If a mandatory program is in effect, we recommend that:

a. The base be set at the preceding year's production history.

b. Producers who participated in the Dairy Termination Program would have no base history.

The price support level must be established as a percentage of parity. The rate to dairy producers must not be less than 71 percent of parity.

If a mandatory program is not in effect, we recommend the reinstitution of either a paid milk diversion program or a dairy buy-out program.

We call on Congress to repeal Class I differentials legislated by the Food Security Act of 1985 and replace them with authority that already exists under the federal milk marketing order system.

We urge acceleration of market order consolidation to achieve uniformity in pricing in regional areas and to maximize net return to producers.

The federal government and milk-producing states should be encouraged to enact legislation adopting component pricing of milk, including the use of protein.

The Food and Drug Administration (FDA) should increase the federal minimum standards for fluid whole milk to 8.7 percent milk solids non-fat; 10 percent for low fat; and 9 percent for skim solids non-fat. And, further, that the FDA, in the best interest of both consumers and dairymen, should do everything in its power to ensure that all milk marketed as fluid milk meet or exceed these standards.

We encourage state legislatures to adopt standards for milk which are greater than the current federal minimum standards.

As casein imports cost American taxpayers in excess of $600 million annually, major reductions in the current import levels of foreign subsized casein should be instituted. If casein is to be used for food, it should be transported as a food and inspected by the United States Department of Agriculture (USDA).

Since dairy imports displace millions of pounds of United States-produced milk annually, we urge Congress to include this annual import level of casein in the 7.5 billion pound trigger level in the dairy program in order to protect the price support level to United States farmers.

We applaud Congress' action to reclassify casein as a food product and request that it take similar action this year.

We request that importation of any dairy products into the United States shall be required to be produced and manufactured under the same quality standards as are required by domestic products, and that the cost of such inspection be borne by the exporter or exporting country of origin.

Public programs and private efforts to reduce government-held dairy stocks ɔuld be implemented. This should include full funding of the school milk pro- am and special milk program to 1980 levels.

Farmers Union supports strengthening federal regulations governing foods ich incorporate artificial dairy products.

We are opposed to regulations which allow the use of dairy terms, i.e., ilk, cheese, cream, cheddar, etc., in labeling imitation and substitute dairy oducts. The use of dairy terms on these labels is deceptive to consumers and lows manufacturers of these products to benefit from the wholesome reputation f natural dairy products.

A dairy indemnity program, similar to that in the 1977 Farm Act, should e reinstituted.

Recognizing that brucellosis continues to be a problem for livestock roducers, Congress should provide adequate funding for the eradication of his disease.

The commercial use of Bovine Growth Hormone should be prohibited ntil social and economic impact studies are completed and the FDA has onducted a long-term study to prove that the product is totally safe and oes not jeopardize the future health of the American people. Further, this oduct should not come into the market until the dairy industry has a long- rm supply management program in effect.

We support continuance of the National Farmers Union Dairy Task Force.

EXHIBIT B
ROCKY MOUNTAIN FARMERS UNION DAIRY POLICY

We urge that standardization and grading of dairy products in each state be inspected by a single state agency for all the dairy industry of each state.

Since milk is laboratory inspected where bacteria count and other quality items are checked, we believe that a dairy that passes lab inspection should not be bothered by on-site inspectors. City milk inspectors should be terminated as the state has a qualified milk inspection system.

We recommend that legislation be passed to allow dairy farmers to market certified raw milk directly to the public. Milk produced by these dairymen should be subject to the inspection and standards required by their states.

STATEMENT OF
JAMES P. CAMERLO
PRESIDENT
NATIONAL MILK PRODUCERS FEDERATION

PRESENTED TO

SUBCOMMITTEE ON LIVESTOCK, DAIRY AND POULTRY
U.S. HOUSE COMMITTEE ON AGRICULTURE
PUEBLO, COLORADO
SEPTEMBER 3, 1987

Mr. Chairman and Members of the subcommittee:

I am Tom Camerlo, a dairy farmer and President of the National Milk Producers Federation, as well as Western Dairymen Cooperative, Inc. WDCI is the largest dairy cooperative in the Rocky Mountain area and was created through a recent merger of Mt. Empire Dairymen's Association and Intermountain Milk Producers Association.

I appreciate this opportunity to appear before the subcommittee and I would like to commend you, Congressman Campbell, for your efforts in bringing the subcommittee to Colorado so that producers here can present their views on current farm programs to the Congress. We have been pleased with your responsiveness to our concerns to date and we look forward to working with you on issues before the livestock, dairy and poultry subcommittee in the future.

My intention here today is to focus on how the 1985 farm

bill has affected the dairy industry nationally and what the outlook is for the near term.

As the national commodity organization representing America's dairy farmers, we have been involved in every phase of the Dairy Termination Program: from its formulation before this subcommittee in 1985, to its initial implementation by the U.S. Department of Agriculture in 1986, through the monitoring of the program's impact on the dairy industry and other agricultural commodities from its beginning nearly 18 months ago to the final days of the program today.

While I don't want to dwell on past history, especially since the Dairy Termination Program was formulated prior to your election Congressman Campbell, it is gratifying to be able to commend the subcommittee for its role in establishing what we believe are the positive dairy provisions of the Food Security Act of 1985. Those of you who were Members of the subcommittee in the 99th Congress will recall that we were initially concerned that a Dairy Termination Program, or whole herd buyout as it was referred to at the time, by and of itself would not prove adequate to correct the supply/demand imbalance in the dairy industry; an imbalance which we sought to resolve.

We had advocated a more comprehensive and permanent approach to achieving and maintaining a balance between production and consumption to sharply curtail government dairy program outlays while protecting dairy farm income. The compromise agreement

which ultimately emerged from the House-Senate farm bill conference committee contained price cuts which we found objectionable, not because they would reduce the milk support price but because of their arbitrary and subjective nature. I will address that subject later in my remarks.

The conference agreement contained an 18 month program designed to provide payments, partially funded by dairy farmers, to those milk producers who would contractually agree to stop producing milk and remain out of dairying for a period of three, four or five years, at the discretion of the Secretary of Agriculture. Additionally, the program contained a red meat purchase program to minimize the impact of the additional dairy beef on the nation's red meat markets.

We are now in the last days of this 18 month program, under which nearly 14,000 dairy farmers have opted to quit dairying for at least the five year period established by USDA. We expect very few of those producers to return to milk production at the end of the contract period.

The results of this program are heartening, and much of the credit for that fact goes to this panel. A great deal of work was done by members of both the House and Senate Agriculture Committees in formulating the numerous provision of the 1985 farm bill. After a long, and many times contentious, debate the commodity provisions for the next several years were established by the Congress. As we look at the nation's agricultural

situation today, we are pleased with the tremendous accomplishments evident in the dairy program. No commodity program in the entire farm bill can show the progress in terms of both surplus reduction and government cost savings that we have seen in the dairy program. It is an enviable record and one which deserves greater attention, both as a tribute to this subcommittee and to the hard work and sacrifice of the nation's dairy farmers in making the program a success.

Let me briefly review the results to date in order to give the subcommittee a more complete picture of the current dairy situation. Since the inception of the DTP milk production has dropped below year earlier levels every month. During the first six months of this fiscal year, 1987, milk production is four percent below the same period of fiscal year 1986. Milk cow numbers are six percent below a year earlier and are at the lowest levels on record.

With milk production declining and the dairy farmer funded milk promotion efforts helping to boost consumption, dairy program purchases by the CCC, on a milk equivalent basis, have dropped dramatically. After reaching 13.2 billion pounds--or about nine percent of total production--in calendar year 1985, government purchases dropped to 10.6 billion pounds in calendar year 1986, during the initial stages of the DTP. That reflects a 19 percent drop in purchases in one year.

Now that the DTP has nearly run its course, the results are

even more dramatic. During the first seven months of 1987, USDA purchased just 4.59 billion pounds, more than a fifty percent reduction from the 10.14 billion pounds purchased during the same period in 1986.

On an individual product basis, through the first half of FY87 butter purchases are down 56 percent, nonfat dry milk purchases are down 48 percent and cheese purchases are down 59 percent from the same period in FY86.

These dramatic reductions in dairy program purchases translate into substantial reductions in the cost of the dairy price support program. Fiscal year 1986 dairy program costs totaled $2.3 billion. For fiscal year 1987, total program costs will be about $1.1 billion, making the dairy program one of the few, and perhaps the only, commodity program to fall within its budget baseline. We expect the program savings to continue into next fiscal year as well, with program costs projected below the FY87 level.

To gain a greater appreciation for the success of this program it is necessary to look at the alternative program which was advocated by the Administration and others, including, unfortunately, some agricultural groups. Without the DTP and with the price cuts which were proposed as the major alternative to this program, milk production today would be higher, government dairy stocks would be higher and program costs today would be higher. In 1987 alone, we project that CCC purchases in

the absence of the DTP would total 14.3 billion pounds; with the DTP we believe they will be under 5.0 billion pounds. Even accounting for the lower support price which would have been in effect under the alternative program, we project government costs with the DTP will be more than $1 billion lower than they would have been had Congress adopted the price cut approach sought by some. A more complete review of the comparison between the DTP approach and the price cut approach is contained in Attachment

Red Meat Purchases

Beyond the tremendous gains in the dairy situation that have been made with the assistance of the DTP, the program has additionally provided substantial aid to the nation's cattle producers, largely through the foresight of the subcommittee in providing for the purchase of 400 million pounds of red meat by the government to offset additional meat coming onto the market as a result of the DTP.

Unfortunately the DTP became a scapegoat for some groups to attack when cattle prices dropped somewhat at the beginning of the program. These attacks were made despite the fact that cattle prices were simply following their seasonal decline (Attachment #2) and were in a fundamentally weak position at the time the DTP went into effect. Once it became clear that the negative psychological reaction to the increased cow culling from the DTP was unwarranted, market prices quickly stabilized and have in

fact dramatically increased during the months of the DTP. Steer and heifer prices in May, 1987 were at their highest level since 1980. I only wish that those who were so quick to attack the DTP as responsible for initial market price drops would acknowledge the program's positive impact on meat prices.

To date, USDA has purchased 423 million pounds of red meat under the program. Additionally, about 70,000 head of dairy cattle, representing the equivalent of about 25 million pounds of meat, have been exported under the DTP. It is important to keep in mind that the total dairy cows contracted under the DTP represent an estimated 519.4 million pounds of red meat (Attachment #3). Thus, the red meat purchase subsidy program effectively removes more than three-fourths of the total meat of the DTP animals and has in fact provided a substantial boost to red meat market prices.

Dairy Situation Today

While we are pleased with the positive results of the Dairy Termination Program, there is nonetheless great concern among many dairy farmers over the possibility of further erosion in milk support prices as a result of the CCC trigger levels established in the 1985 farm bill. Despite the excellent results to date, we are concerned that there may be a reduction in the support price of $.50 per hundredweight on January 1, 1988, which would lower the support price to $10.60, if USDA projects CCC

purchases in 1988 in excess of five billion pounds milk equivalent. Our projections indicate that surplus removals will be less than five billion pounds for 1988, but unfortunately there is no objective mechanism to deal with the trigger. If USDA reduces the support price and removals turn out to be less than five billion pounds for the calendar year, the department will simply claim that removals were lower because of the price cut.

As I noted earlier, we question the imposition of an arbitrary and static target of five billion pounds milk equivalent for dairy program purchases upon a dynamic industry. The five billion pound target for Commodity Credit Corporation removals was initially established in the early 1980s, when annual milk production was about 135 billion pounds and consumption was about 121 billion pounds. The 12.8 billion pounds of milk purchased by USDA under the price support program in 1981 equaled just under ten percent of total U.S. milk production.

For calendar year 1987, milk production is likely to total 142 billion pounds and we project commercial use will total about 139 billion pounds. USDA is likely to purchase about 4.9 billion pounds of milk this year, or just under five billion pounds. The key point is that in a growing industry, the five billion pound milk equivalent target represents a smaller amount of total production. Thus, in 1987, USDA is expected to purchase about

3.6 percent of the nation's total milk production to support farm milk prices.

That is a dramatic reduction in both real and percentage terms, reducing CCC removals to their lowest levels in nearly a decade. But still, dairy farmers face the very serious prospect of a reduction in milk prices, even though it is clear that USDA will not have sufficient stocks of dairy products in CCC inventories to meet its various Congressional mandates for domestic and foreign dairy product obligations. Recently, USDA rejected an opportunity to sell dairy stocks to India, claiming that no product was available. At present, many state food distribution coordinators are voicing concern that they will not receive enough dairy products from USDA during fiscal year 1988 to meet their local needs under the Temporary Emergency Food Assistance Program (TEFAP). Frankly, it is difficult to comprehend the possibility of a further reduction in farm milk prices at the same time USDA is unable to provide dairy products for its programs.

We do not believe further price cuts are needed at the present time. Because of our concern, we are exploring possible ways to provide even greater assurance that CCC removals will be below five billion pounds in 1988, thereby eliminating the possibility of a price cut on January 1, 1988.

One proposal which our members are examining at present is the possibility of increasing national milk promotion

expenditures to commercially market even more milk and get us under the five billion pound trigger and eliminate the authority for the potential price cut. We will be communicating our views to the subcommittee on this subject in the coming days as our members continue their deliberations on the matter.

DTP Program Compliance Audit

We are generally pleased with the findings of USDA's Office of Inspector General in its audit of compliance with the Dairy Termination Program regulations. The extensive field audit and review by OIG found that USDA's Agricultural Stabilization and Conservation Service generally developed and implemented effective procedures and/or controls over the bid and contract acceptance process, and complied with the provisions of the Food Security Act of 1985. Additionally, OIG pointed out, in most areas where program control problems were pointed out, ASCS took prompt and positive actions to issue additional procedures addressing the conditions noted.

One of the reasons the program has worked so well is because of the dogged efforts of the nation's dairy farmers to make sure it works. Dairy farmers are paying approximately $700 million of the program's cost in the form of assessments on all milk marketed and they are keenly interested in seeing the program succeed in reducing milk production and government program costs. We have been contacted on several occasions by

our members expressing concern about possible program violations in their area. In virtually every case we have contacted ASCS personnel in the Washington office and they have been responsive to our contacts.

In summary, Mr. Chairman and Members of the subcommittee, we believe the Dairy Termination Program has worked well to date in reducing surplus milk production and providing some financial assistance to those dairy farmers who contracted to eliminate their production under the program.

We are pleased that, to date, the dairy program has worked better than perhaps any other commodity program in the 1985 farm bill. The dramatic budgetary savings we have achieved in a very short period have contributed greatly to reducing the deficit, especially at a time of rising farm program costs in other commodities.

But we do harbor a great deal of trepidation over the possibility of what we consider unwarranted price support reductions at a time when milk production and consumption are in near balance and the federal government is expected to be short of dairy products for its various program uses. We hope we can work with this subcommittee in the coming days to address these issues in a manner of fairness and equity to the nation's dairy farmers.

Thank you for this opportunity to present my views here today. I would be happy to respond to any questions.

(Attachments follow:)

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Attachment #1

EFFECT OF THE DAIRY TERMINATION PROGRAM ON MILK PRODUCTION, PRICES, AND CCC NET REMOVALS 1986-1988

Calendar Year	1985	WITH DTP 1986	WITH DTP 1987	WITH DTP 1988	WITHOUT DTP 1986	WITHOUT DTP 1987	WITHOUT DTP 1988
	-BILLION POUNDS-				-BILLION POUNDS-		
Support Price (FB85):	$11.98	$11.60	$11.29	$11.10	$11.10	$10.60	$10.10
Milk Production [1]	143.7	144.1	141.8	144.7	147.8	152.2	155.2
- Farm Use	2.6	2.3	2.6	2.6	2.6	2.6	2.6
Marketings	141.1	141.8	139.2	141.8	145.2	149.6	152.6
+ Beg. Comm. Stocks	4.9	4.6	4.2	4.3	4.5	4.5	4.6
+ Imports	2.8	2.7	2.7	2.7	2.7	2.8	2.8
Total Milk Supply	148.8	149.1	146.0	148.8	152.4	156.9	160.0
Commercial Use [2]	131.0	134.3	136.9	139.7	135.0	138.3	141.8
Ending Comm. Stocks	4.6	4.2	4.3	4.4	4.5	4.6	4.6
Total Utilization	135.6	138.5	141.2	144.1	139.5	142.9	146.4
CCC Net Removals	13.2	10.6	4.9	4.7	12.9	14.0	13.6
Difference in Removals From DTP Program:	--	--	--	--	2.6	9.0	8.5
CCC Net Dairy Outlays [3] (Million Dollars)	$2,140	$2,050	$910	$800	$1,860	$1,940	$1,830
Difference in Cost From DTP Program:	--	--	--	--	($190)	$1,030	$1,030
M-W Manufacturing Price	$11.80	$11.58	$11.40	$11.15	$10.90	$10.40	$9.90
All Milk Price ($/cwt):	$12.75	$12.48	$12.30	$12.05	$11.80	$11.30	$10.80
- Assessment (Average)	$0.13	$0.36	$0.19	$0.00	$0.06	$0.00	$0.00
Net All Milk Price (FB):	$12.62	$12.12	$12.11	$12.05	$11.74	$11.30	$10.80
Difference in Price From DTP Program:	--	--	--	--	($0.38)	($0.81)	($1.25)

[1] Milk production numbers for 1985 and 1986 are actual figures. 1987 projections are calculated from USDA and NMPF Production estimates and account for DTP effects. 1988 projections based on two percent growth rate.

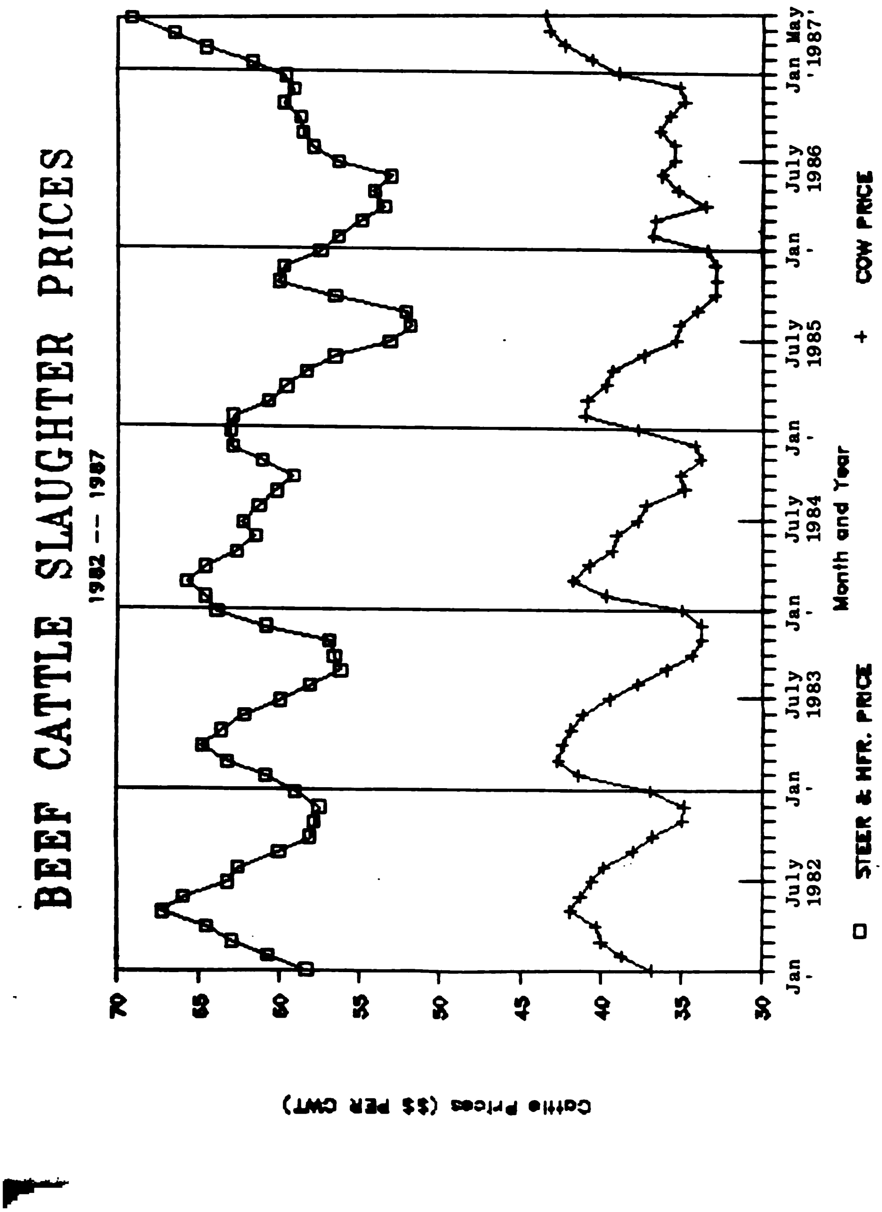
[2] Commercial use projections based on a two percent growth rate under the Dairy Termination Program and a 2.5 percent increase under the plan proposed under the original 1985 Senate version of the farm bill.

[3] Total dairy program costs are estimated using the applicable support levels for the periods indicated. Adjustments are made for applicable dairy assessments, as well as applicable storage, handling, and other related costs. Costs do not include Red Meat Purchase Program costs for 1986 and 1987.

Sources: ASCS and ERS, USDA.

National Milk Producers Federation 9/01/87

Attachment #2



Attachment #3

RED MEAT PURCHASING PROGRAM
EXPECTED MEAT SALES AND PURCHASES

Age of Animal	Total DTP Animals Sold	Total Pounds Meat Sold
Cows:	909,133	416,382,914
Heifers:	302,059	67,963,275
Calves:	285,066	35,063,118

Expected Total Pounds of Meat Sold: 519,409,307

Expected Red Meat Program Purchases: 400,000,000

Expected Percent Of DTP Meat Sold to be Purchased by the Government: 77%

Conversion Factors Used:

1 Cow Equals 458 Pounds of Red Meat
1 Heifer Equals 225 Pounds of Red Meat
1 Calf Equals 123 Pounds of Red Meat

Source: ASCS, USDA.

National Milk Producers Federation 6/10/87

STATEMENT OF LELAND ANDERSON

TESTIMONY FROM WESTERN DAIRYMEN COOPERATIVE, INC. BEFORE THE HOUSE LIVESTOCK, DAIRY AND POULTRY SUBCOMMITTEE - PUEBLO, COLORADO - SEPTEMBER 3, 1987

WESTERN DAIRYMEN COOPERATIVE INCORPORATED (WDCI) IS THE RESULT OF THE RECENT MERGER OF MOUNTAIN EMPIRE DAIRYMEN'S ASSOCIATION (MEDA) OF COLORADO AND INTERMOUNTAIN MILK PRODUCERS ASSOCIATION (IMPA) OF UTAH. WDCI IS A COOPERATIVE ASSOCIATION REPRESENTING SOME 1500 DAIRY FARMER MEMBERS IN THE STATES OF COLORADO, UTAH, IDAHO, NEVADA, WYOMING, NEBRASKA, KANSAS, SOUTH DAKOTA, OREGON AND CALIFORNIA.

WDCI OWNS AND OPERATES FOUR FLUID MILK PROCESSING PLANTS AND FOUR CHEESE MANUFACTURING PLANTS LOCATED THROUGHOUT THE ROCKY MOUNTAIN REGION OF THE UNITED STATES.

PRODUCER-MEMBERS OF WDCI PROVIDE 2.4 BILLION POUNDS OF MILK ANNUALLY TO OUR PRINCIPLE MARKETS OF DENVER, COLORADO AND SALT LAKE CITY, UTAH.

MERGING THE TWO COOPERATIVES BRINGS TOGETHER TWO DRASTICALLY DIFFERENT MARKETING PHILOSOPHIES. MOUNTAIN EMPIRE DAIRYMEN'S ASSOCIATION HAS HISTORICALLY MAINTAINED A STRICT SUPPLY MANAGEMENT PROGRAM TARGETING OUTPUT TO THE CLASS I AND II SALES IN THE MARKETS THEY SERVICED. THIS ALLOWED MEDA TO OPERATE SOLELY AS A MARKETING COOPERATIVE SUPPLYING THE RAW MILK NEEDS OF THEIR CUSTOMERS.

THE PREDECESSOR COOPERATIVES TO INTERMOUNTAIN MILK PRODUCERS ASSOCIATION MADE THE COMMITMENT LONG AGO TOWARD THE VERTICALLY INTEGRATED MARKETING OF THEIR PRODUCT. IN ADDITION TO SUPPLYING RAW MILK TO THEIR CUSTOMERS, IMPA HAS MAINTAINED BOTH FLUID PROCESSING AND CHEESE MANUFACTURING OPERATIONS THROUGHOUT THEIR PRINCIPLE MARKETS.

THIS BACKGROUND INFORMATION IS REPORTED TO YOU TODAY TO GIVE THE

SUBCOMMITTEE A BETTER UNDERSTANDING OF OUR MARKET POSITION AS IT RELATES TO SEVERAL KEY CONCERNS CONFRONTING THE NATIONAL DAIRY INDUSTRY. THE MARRIAGE OF THESE CONTRASTING MARKETING APPROACHES LENDS A GREAT DEAL OF DIVERSITY TO OUR NEW ORGANIZATION. OUR OPERATIONS WILL BE IMPACTED EQUALLY BY SUPPLY SIDE PHILOSOPHIES AS WELL AS THE PROCESSING OUTLOOK, AS THEY RELATE TO THE SOLUTIONS TO OUR INDUSTRY'S SUPPLY-DEMAND IMBALANCES.

THROUGHOUT THE COURSE OF OUR TESTIMONY BEFORE THE SUBCOMMITTEE OUR THREE OBJECTIVES IN PRESCRIBING ALTERNATIVE PROGRAMS OR PROGRAM MECHANICS ARE:

1) TO MAINTAIN AN ADEQUATE SUPPLY OF WHOLESOME DAIRY PRODUCTS TO CONSUMERS AT REASONABLE PRICES.
2) TO MAINTAIN DAIRY FARMER RETURNS AT A LEVEL CONSISTENT WITH THE COST INCURRED IN THE PRODUCTION OF FLUID MILK..
3) TO MINIMIZE THE COST TO THE FEDERAL GOVERNMENT AND TAXPAYERS OF THE DAIRY SUPPORT PROGRAM.

SUPPLY MANAGEMENT

THE PRODUCTION AREAS OF THE INTERMOUNTAIN REGION ARE ISOLATED IN POCKETS BETWEEN MOUNTAIN RANGES. THE THREE BASIC MARKETS FOR FLUID MILK ARE THE METROPOLITAN AREAS OF DENVER, SALT LAKE CITY, AND LAS VEGAS. CONSEQUENTLY, THERE IS CONSIDERABLE EXPENSE INVOLVED IN THE ASSEMBLY OF MILK AND ITS DELIVERY TO A FLUID MARKET OR THE REMOVAL OF SURPLUS MILK TO A DISTANT MANUFACTURING OUTLET.

BECAUSE OF THIS FACT, THE COOOPERATIVES IN THE INTERMOUNTAIN AREA HAVE UTILIZED A BASE OR QUOTA SYSTEM AS A MEANS FOR MAINTAINING A MARKET BALANCE. THE EFFECTIVENESS OF THIS TYPE OF SUPPLY MANAGEMENT DEPENDS ON THE DEGREE OF PARTICIPATION BY ALL PRODUCERS WITHIN THE

MARKET. HOWEVER, IT HAS WORKED AND ADDRESSED THE NEED FOR PRODUCTION/CONSUMPTION BALANCE.

DAIRY FARMERS UNDERSTAND THAT WITH THE ABILITY TO PRODUCE MORE THAN OUR DOMESTIC MARKET NEEDS, YOU CANNOT EXPECT TO ALLOW UNLIMITED PRODUCTION AND CONTINUE TO RECEIVE PROFIT GENERATING PRICES. THE TWO DO NOT GO TOGETHER. CONSEQUENTLY SOME TYPE OF SUPPLY MANAGEMENT PROGRAM MUST BE CONSIDERED AS A MEANS TO PROVIDE AN ONGOING MARKET BALANCE WITHIN THE INDUSTRY.

AS YOU KNOW, SUPPLY MANAGEMENT IS A VERY BROAD TERM THAT EMBRACES MANY FORMS. DIVERSION, WHOLE HERD BUYOUT, TWO-TIER PRICING, TARGET PRICE WITH DEFICIENCY PAYMENTS, QUOTAS AND BASES OR ANY COMBINATIONS OF THESE CAN BE CONSIDERED SUPPLY MANAGEMENT.

DAIRY FARMERS OVER THE YEARS HAVE WORKED DILIGENTLY TO DEVELOP PROGRAMS THAT ATTEMPT TO RESPONSIBLY ADDRESS OVER SUPPLY IN A MANNER THAT BOTH CONSUMERS AND FARMERS CAN LIVE WITH. AS THE INDUSTRY MOVES BEYOND THE PRODUCTION RESTRAINTS OF THE 85 FARM BILL, ALTERNATIVE PROGRAMS MUST BE DEVELOPED TO INSURE SOME DEGREE OF BALANCE BETWEEN OUR PRODUCTIVE CAPACITY AND THE DEMAND FOR MILK AND DAIRY PRODUCTS.

DAIRY FARMERS MUST HAVE A LONG TERM PROGRAM THAT WILL GUARANTEE THAT ALL PRODUCERS WILL SHARE EQUALLY IN THEIR RESPONSIBILITY FOR REDUCING PRODUCTION IN TIMES OF SURPLUS. IT IS IMPORTANT THAT THE SECRETARY OF AGRICULTURE WOULD HAVE MANDATED RATHER THAN DISCRETIONARY STANDBY AUTHORITY FOR THE IMPLEMENTATION OF A SUPPLY MANAGEMENT SCHEME IN ANY YEAR THAT SURPLUS MILK PRODUCTION IS FORECASTED TO EXCEED GOVERNMENT NEEDS. THIS WOULD INVOLVE THE ASSIGNMENT OF A MARKET SHARE TO PRODUCERS COMPUTED FROM A MARKETING HISTORY OVER A SPECIFIED PERIOD OF YEARS. IN TIMES OF SURPLUS, PRODUCTION IN EXCESS OF THEIR MARKET ALLOCATION WOULD BE PRICED AT A MUCH LOWER LEVEL. THIS RETURN FOR

SURPLUS COULD BE LINKED TO A WORLD PRICE OR SOME OTHER MARKET CLEARING FORMULA.

INCLUSIVE IN THIS CONCEPT WOULD BE THE CONTINUANCE OF THE DAIRY PRICE SUPPORT PROGRAM.

THE PRICE SUPPORT PROGRAM HAS SERVED THE DAIRY INDUSTRY AND CONSUMERS WELL AS A MEANS FOR PRODUCT REMOVAL FROM SURPLUS SUPPLIES OR PRODUCT AVAILABILITY FOR MARKET NEEDS OR GOVERNMENT PROGRAMS. OVER THE YEARS IT HAS EFFECTIVELY TAKEN THE SHARP PEAKS AND VALLEYS OUT OF MILK PRICES AND HAS PROVIDED CONSIDERABLE STABILITY TO THE INDUSTRY AND CONSUMERS. IT HAS MET THE ORIGINAL DESIGNATED PURPOSE OF PROVIDING AN ADEQUATE SUPPLY OF MILK FOR CONSUMERS AT A REASONABLE PRICE.

THE SUPPORT PROGRAM WITH CCC PRODUCT PURCHASE AUTHORITY SHOULD BE CONTINUED TO MEET THE NEEDS OF GOVERNMENT SPONSORED PROGRAMS AND OBLIGATION AND HELP MAINTAIN THE NEEDED MARKET STABILITY. SUPPORT PRICES SHOULD BE TIED TO A PRICING INDEX THAT REFLECTS MORE ACCURATELY THE COSTS RELATED TO MILK PRODUCTION, AS OPPOSED TO THE CURRENT FORMULA USED TO CALCULATE PARITY.

DAIRY PRICING INDEX

NATIONAL MILK PRODUCERS FEDERATION (NMPF) HAS DEVELOPED A DAIRY PRICING INDEX THAT IS A MORE REALISTIC REFLECTION OF VARIABLE INFLUENCES AFFECTING DAIRY FARMERS COSTS TODAY, AS WELL AS THE ECONOMIC CLIMATE THAT CONSUMERS ARE EXPERIENCING. WE SUPPORT THE USE OF THIS DAIRY PRICING INDEX IN LIEU OF THE OUTDATED PARITY INDEX TO ADJUST THE DAIRY SUPPORT LEVEL.

DAIRY FARMING TODAY IS MUCH DIFFERENT THAN IN THE 1910-14 PERIOD IN WHICH THE PARITY INDEX IS BASED. ATTEMPTING TO MEASURE IN A MEANINGFUL WAY THE CHANGES IN PRICES RECEIVED FOR MILK AND PRICES PAID BY DAIRY

FARMERS IN COMPARISON TO 70 YEARS AGO IS NEARLY IMPOSSIBLE.

THE NMPF PROPOSAL ESTABLISHES A NEW DAIRY PRICING INDEX WHICH RELATES THE COSTS DAIRY FARMERS FACE TODAY WITH THOSE IN THE THREE YEAR PERIOD FROM 1976-78, A TIME OF FAIR BALANCE BETWEEN MILK SUPPLIES AND DEMAND.

THE DAIRY INDEX IS DESIGNED TO INCLUDE A SUPPLY-DEMAND ADJUSTER TO RECOGNIZE THAT FACTORS IN THE DAIRY PRICING INDEX ARE BASED ON MARKET CONDITIONS IN A HISTORICAL PERIOD AND MAY NOT REFLECT CURRENT OR FUTURE MARKET CONDITIONS. THE ADJUSTER ACTS AS A FINE-TUNING MECHANISM TO THE INDEX. SCHEDULED PRICE INCREASES AND DECREASES MAY BE TRIGGERED DEPENDING ON THE ESTIMATED LEVEL OF CCC PURCHASES.

UNDER THIS PROPOSAL, THE BASIC PROVISIONS OF THE CURRENT DAIRY PRODUCT PURCHASE PROGRAM WOULD NOT BE ALTERED. CCC WOULD CONTINUE TO OFFER TO PURCHASE DAIRY PRODUCTS AT A SET PURCHASE PRICE AS A MARKET CLEARING FUNCTION OF THE DAIRY PRICE SUPPORT PROGRAM.

TECHNOLOGY

OVER THE LAST TWENTY YEARS, SIGNIFICANT INCREASES IN MILK PRODUCTION HAVE BEEN ACHIEVED THROUGH RIGOROUS GENETIC SELECTION AND BREEDING PRACTICES ACCOMPANIED BY ONGOING IMPROVEMENTS IN FEEDING AND MANAGEMENT TECHNIQUES. A REASONABLE PROJECTION OF CURRENT TRENDS WOULD HAVE SUGGESTED A 1.5-3.0 PERCENT ANNUAL INCREASE IN MILK PRODUCTION ON A PER COW BASIS OVER THE NEXT SEVERAL YEARS. HOWEVER, IF THE USE OF BOVINE SOMATOTROPIN IS APPROVED AND ACCEPTED BY DAIRYMEN AND CONSUMERS, FUTURE PATTERNS OF PRODUCTION WILL LIKELY CHANGE DRAMATICALLY.

EMBRYO TRANSFER TECHNIQUES WILL CONTINUE TO ENHANCE GENETIC GAINS IN THE YEARS TO COME. INCREASED OUTPUT FROM THIS ADVANCEMENT HAS INCREASED PER COW OUTPUT IN SOME ANIMALS BY UP TO 50%, FAR MORE THAN

WHAT THE POTENTIAL OF BST MIGHT BE. IN ADDITION, IT MAY BE MORE ACCEPTABLE IN TERMS OF CONSUMER PERCEPTANCE; OR IS IT?

THE POSSIBILITY OF SUBSTANTIALLY INCREASING PRODUCTION PER COW THROUGH GENETIC IMPROVEMENT ALONE MUST LEAD TO REDUCTIONS IN THE NATIONAL DAIRY HERD. FURTHERMORE, THE INCREASED EFFICIENCY OF FEED CONVERSION IN TODAY'S ANIMALS, AND THOSE WE ARE BUILDING FOR TOMORROW, ARE REQUIRING FEWER AND FEWER CROP ACRES DEVOTED TO DAIRY FEED.

THESE AREAS ARE BUT A FEW OF THE INFLUENCES ON MILK PRODUCTION THAT WILL CONTINUE TO STRAIN THE DAIRY PRICE SUPPORT PROGRAM. CONCERN FOR THE DIRECTION OF THE FAMILY FARM WILL CONTINUE TO MOTIVATE OUR THOUGHTS AS TO WHAT SHOULD BE INCLUDED IN FUTURE FARM PROGRAMS. HOWEVER, GENTLEMEN, WE MUST FACE THE FACTS THAT THE FAMILY FARM STRUCTURE, IF IT IS TO SURVIVE, WILL BE LARGER AND MORE EFFICIENT. HIGHER LAND PRICES, HIGHER COSTS FOR LABOR, EQUIPMENT AND OTHER CAPITAL REQUIREMENTS WILL FORCE THE LEAST EFFICIENT DAIRY FARMERS OUT OF BUSINESS. THIS IS TRUE OF BOTH THE FAMILY OR CORPORATE FARMER.

FOR THIS PRIMARY REASON, WESTERN DAIRYMEN COOPERATIVE INCORPORATED SUPPORTS THE CONTINUING DEVELOPMENT OF ADVANCING TECHNOLOGY NOT FROM THE STANDPOINT OF THE PRODUCTIVE GAINS THAT TECHNOLOGY WILL AFFORD DAIRY FARMERS, BUT FROM THE STANDPOINT OF REDUCING OUR COST OF PRODUCTION LEVELS. REDUCED PRODUCTION COSTS ON THE FARM WILL ENABLE US TO MORE EFFECTIVELY COMPETE AGAINST THE INCREASED ECONOMIC PRESSURES OF OUR ECONOMY AND THE WORLD MARKET.

SINCE THE EFFECT OF DEVELOPING TECHNOLOGY COULD MAGNIFY THE ECONOMIC IMPACTS ON THE DAIRY PRICE SUPPORT PROGRAM, PRIOR INDUSTRY REVIEW AND ACCEPTANCE SHOULD BE SOUGHT. THIS WOULD ASSURE THAT PROPER

RESEARCH HAS BEEN COMPLETED AND THAT THE ADOPTION OF SUCH TECHNOLOGIES WOULD NOT JEOPARDIZE THE SAFE, WHOLESOME REPUTATION OF DAIRY PRODUCTS WITH THE CONSUMERS.

- JANUARY 1988 PRICE SUPPORT DETERMINATION -

THE DAIRY PORTION OF THE 1985 FARM BILL RESULTED IN A CREATIVE AND CONTROVERSIAL PROGRAM FOR THE NATION'S DAIRY FARMERS - THE DAIRY TERMINATION PROGRAM. CREATIVE, IN THE SENSE THAT NEVER BEFORE HAD ANY SUPPLY SIDE PROGRAM ADDRESSED OVER PRODUCTIVITY IN SUCH A DIRECT MANNER. CONTROVERSIAL, IN THAT THE PROGRAM WAS MET WITH GREAT OPPOSITION FROM OTHER SEGMENTS OF THE AGRICULTURAL COMMUNITY.

NONETHELESS, THE TERMINATION PROGRAM WAS EXTREMELY SUCCESSFUL IN REDUCING MILK PRODUCTION, IN ADDITION TO OUR PRODUCTIVE CAPACITY IN TERMS OF THE NUMBER OF DAIRY ANIMALS AND THEIR FUTURE OFFSPRING THAT WERE ELIMINATED FROM THE NATIONAL DAIRY HERD.

PURCHASES OF SURPLUS DAIRY PRODUCTS BY THE COMMODITY CREDIT CORPORATION TODAY ARE VIRTUALLY NON-EXISTENT AND ARE PROJECTED BY USDA TO BE BELOW THE INFAMOUS 5 BILLION POUND LEVEL FOR THE 1987 CALENDAR YEAR. IN ADDITION, CCC STOCKS OF SURPLUS BUTTER, NON-FAT DRY MILK AND CHEESE ARE PREDICTED TO BE NEARLY EXHAUSTED AT THE CONCLUSION OF THIS FISCAL YEAR. THE OFTEN TIMES OVER-STATED COST OF THE DAIRY PRICE SUPPORT PROGRAM HAS BEEN HALVED AS A RESULT OF THE DAIRY TERMINATION PROGRAM AND STRONG COMMERCIAL SALES. FOR THE UPCOMING YEAR, THE DEPARTMENT IS PROJECTING A 2% INCREASE IN THE COMMERCIAL USE OF MILK AND DAIRY PRODUCTS AS CONSUMERS ARE BECOMING INCREASINGLY MORE AWARE OF THE NUTRITIONAL BENEFITS AND FOOD VALUE COMING FROM DAIRY PRODUCTS.

AS YOU KNOW, THE DAIRY TERMINATION PROGRAM WAS ONLY A SMALL PORTION OF THE TOTAL FARM BILL DEALING WITH DAIRY ISSUES. PRICE SUPPORT EVALUATIONS ARE SCHEDULED FOR JANUARY 1 OF 1988 THROUGH 1990.

IF ON THESE THREE OCCASIONS, THE SECRETARY'S ESTIMATES OF CCC PURCHASES OF SURPLUS DAIRY PRODUCTS FALL IN EXCESS OF 5 BILLION POUNDS FOR THE COMING YEAR, HE HAS AUTHORITY TO DECREASE THE SUPPORT PRICE BY NOT MORE THAN 50 CENTS/CWT. SIMILAR AUTHORITY EXISTS TO INCREASE THE SUPPORT PRICE IF PURCHASES ARE ESTIMATED TO BE BELOW 2.5 BILLION POUNDS.

WE RESPECTFULLY SUBMIT TO YOU TODAY THAT THE FIVE BILLION POUND FIGURES USED AND RECOGNIZED BY THE INDUSTRY TO BE THE NEEDS OF GOVERNMENT PROGRAMS, IS GROSSLY UNDERSTATED. THE TRUE NEEDS OF GOVERNMENT PROGRAMS SHOULD BE IDENTIFIED AND MADE COMMON KNOWLEDGE SO THAT THE INDUSTRY'S EFFORTS TO TAPER ITS SUPPLY TO THE DEMAND FOR DAIRY PRODUCTS DO NOT GO UNNOTICED. THE NATION'S DAIRY FARMERS SHOULD NOT BE SUBJECTED TO THE POLITICAL MANIPULATION OF THIS FIGURE WHERE THEIR INCOMES, AND OFTEN TIMES THEIR FUTURES, ARE CONCERNED.

USDA, SPECIFICALLY CHARLIE SHAW, HAS BEEN QUOTED AS REPORTING THAT THE GOVERMENT REQUIRES APPROXIMATELY 3.5 BILLION POUNDS OF DAIRY PRODUCTS ANNUALLY FOR VARIOUS PROGRAMS EXCLUDING TEFAP NEEDS. IF THIS IS THE CASE, THE NATION'S DAIRY FARMERS ARE BEING ASKED TO GEAR THEIR OUTPUT TO WITHIN 1.5 BILLION POUNDS OF THE GOVERNMENT'S REQUIREMENTS. THIS REPRESENTS ONLY ABOUT 1% OF THE TOTAL U.S. MILK PRODUCTION.

ON MANY OCCASIONS IN THE PAST AND THROUGHOUT THE REMAINING TERM OF THE '85 FARM BILL, PRICE SUPPORT REDUCTIONS HAVE BEEN TIED TO OUR PRODUCTIVE CAPACITY AS IT RELATES TO THE VOLUME OF CCC PURCHASES OF SURPLUS PRODUCTS. WE SUGGEST TO YOU TODAY THAT THE JANUARY 1988 PRICE SUPPORT DETERMINATION SHOULD NOT BE ADJUSTED FROM THE $11.10 PER CWT. LEVEL THAT WILL BE THE RESULT AFTER THE OCTOBER 1ST MANDATED PRICE REDUCTION. SUPPLY AND DEMAND ON A NATIONAL BASIS ARE NOW IN BALANCE, IN FACT THERE ARE ACTUALLY REGIONAL SHORTAGES OF PRODUCT AT PRESENT.

AS WE APPROACH THE FALL AND WINTER MONTHS AHEAD, THESE SHORTAGES WILL BE ACCENTED BY REDUCED PRODUCTION AND A SEASONAL INCREASE IN COMMERCIAL CONSUMPTION. A PRICE SUPPORT REDUCTION WOULD BE EXTREMELY DISRUPTIVE TO THE INDUSTRY AND CONSUMERS ALIKE, AS SHORTAGES OF PRODUCT AND INCREASING RETAIL PRICES WOULD BE THE RESULT. SUCH A DECISION WOULD RUN AGAINST THE GRAIN OF THE PRICE SUPPORT PROGRAM'S INTENT TO MAINTAIN AN ADEQUATE SUPPLY OF MILK FOR THIS NATION'S CONSUMERS AT REASONABLE PRICES.

THE HISTORY OF PRICE SUPPORT REDUCTIONS HAS BEEN THAT MILK OUTPUT IS NOT REDUCED (SEE EXHIBIT). THE FACT IS THAT FEWER DAIRY FARMERS ARE USUALLY THE RESULT, NOT LESS MILK. SURVIVING MILK PRODUCERS INCREASE PRODUCTION TO MAINTAIN CASH FLOW. COWS FROM DAIRY FARMERS NOT ABLE TO SURVIVE THE PRICE REDUCTION FIND THEIR WAY INTO THOSE OPERATIONS THAT CAN WEATHER THE STORM. THE ONLY ALTERNATIVES THAT HAVE BEEN AT ALL SUCCESSFUL IN REDUCING MILK PRODUCTION AND PROGRAMS COSTS HAVE BEEN SUPPLY MANAGEMENT PROGRAMS SUCH AS THE MILK DIVERSION PROGRAM AND THE DAIRY TERMINATION PROGRAM. A REDUCTION IN THE SUPPORT PRICE TO $10.60/CWT. COULD CREATE PRODUCTION INCREASES THAT WILL CONFLICT WITH DEPARTMENT ESTIMATES OF REDUCED GOVERNMENT PURCHASES. WE ENCOURAGE LEGISLATORS TO LOOK TO MEANS OTHER THAN REDUCED PRICE AS A LEVER IN CONTROLING MILK PRODUCTION.

DAIRY TRADE ISSUES

THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS UNDER THE GATT IS CAUSING CONCERN AMONG DAIRY FARMERS DUE TO THE EXPERIENCES THAT WERE THE RESULT OF THE LAST ROUND OF SUCH TALKS. DAIRY FARMERS BORE THE BRUNT OF THE AGRICULTURAL CONCESSIONS THAT WERE REACHED IN THE PREVIOUS TRADE AGREEMENT, AND APPEAR DESTINED FOR THE SAME EFFECT AS

THE ADMINISTRATION SIGNALS ITS INTENTIONS FOR CURRENT AND FUTURE ROUNDS.

THE DOMESTIC DAIRY INDUSTRY PROGRAM THAT IS AFFECTED BY INTERNATIONAL TRADE NEGOTIATIONS IS THE SECTION 22 DAIRY IMPORT QUOTA PROGRAM. SECTION 22 OF THE AGRICULTURAL ADJUSTMENT ACT OF 1933 ALLOWS CERTAIN RESTRICTIONS TO BE IMPOSED ON THE IMPORTATION OF PRODUCTS THAT MATERIALLY INTERFERE WITH THE OPERATION OF ANY DOMESTIC AGRICULTURAL PROGRAM. IMPORT QUOTAS ARE APPLIED TO MOST DAIRY PRODUCTS UNDER THE AUTHORITY OF SECTION 22 BECAUSE UNLIMITED IMPORTS OF SUCH PRODUCTS WOULD SOON DESTROY THE DAIRY INDUSTRY AND THE DAIRY PRICE SUPPORT PROGRAM, WHICH IS A FUNDAMENTAL COMPONENT OF PUBLIC FOOD POLICY.

IN KEEPING WITH PAST TRADE TALKS, OUR FOREIGN COUNTERPARTS ARE TARGETING THE SECTION 22 IMPORT QUOTAS AS UNFAIR EVEN THOUGH NEARLY ALL OUR TRADING PARTNERS OPERATE SIMILAR PROGRAMS OF THEIR OWN WHICH IN MOST CASES ARE EVEN MORE RESTRICTIVE THAN THOSE AUTHORIZED UNDER SECTION 22. NEVERTHELESS, DURING THE TOKYO ROUND OF NEGOTIATIONS, THE U.S. AGREED TO EXPAND ITS DAIRY IMPORT QUOTAS. TOTAL ALLOWABLE IMPORTS WERE INCREASED BY MORE THAN 91%. IN EXCHANGE, THE U.S. RECEIVED TARIFF CONCESSIONS ON NON-DAIRY COMMODITIES.

EACH ADDITIONAL 1000 METRIC TONS BY WHICH SECTION 22 CHEESE QUOTAS ARE INCREASED HAS THE EFFECT OF DISPLACING THE MILK PRODUCTION OF 36 AVERAGED SIZED DAIRY FARMERS FROM DOMESTIC COMMERCIAL MARKETS AND ADDS $2.8 MILLION DOLLARS ANNUALLY TO THE PUBLIC COST OF THE DAIRY PRICE SUPPORT PROGRAM BASED ON 1986 PRICES. TRANSLATED, THE TOKYO ROUND OF CHEESE QUOTA INCREASES DISPLACED THE MARKETS OF OVER 1900 DAIRY FARMERS AT A COST TO TAXPAYERS OF $150 MILLION DOLLARS.

TRADE ISSUES SUCH AS SECTION 22 IMPORT QUOTAS MUST BE CONSIDERED EQUALLY WITH DOMESTIC SUPPLY PROGRAMS BY THE COMMISSION WHEN

EVALUATING THE CURRENT DAIRY PRICE SUPPORT PROGRAM. ASKING OUR NATION'S DAIRY FARMERS TO WALLOW IN MILK PRICES BELOW THE COST OF PRODUCTION WHILE IMPORT QUOTAS ARE NEGOTIATED FURTHER UPWARDS, HELPS NEITHER THE CONSUMER NOR THE DAIRY FARMER.

CASEIN IMPORTS

THERE HAS BEEN A CONSISTENT FAILURE TO ENFORCE LONG STANDING POLICY IN RECENT YEARS REGARDING CASEIN IMPORTS DESPITE EVIDENCE SUPPLIED IN SEVERAL INVESTIGATIONS AND STUDIES. THE INTERNATIONAL TRADE COMMISSION AND USDA HAVE COMPLETED STUDIES THAT PROVIDE DETAILED EVIDENCE THAT THE IMPORTATION OF CASEIN IS CAUSING SIGNIFICANT AND STEADILY INCREASING INTERFERENCE WITH THE DAIRY PRICE SUPPORT PROGRAM.

USDA HAS ESTIMATED THAT GOVERNMENT COSTS OF THE DAIRY PRICE SUPPORT PROGRAM WOULD HAVE BEEN $600 MILLION DOLLARS LOWER IN 1985 IF NO CASEIN HAD BEEN IMPORTED INTO THE UNITED STATES.

CASEIN IS IMPORTED INTO THE UNITED STATES PRIMARILY FROM NEW ZEALAND AND EC COUNTRIES. THESE CASEIN EXPORTING COUNTRIES HAVE DEVELOPED CASEIN INDUSTRIES IN RECENT YEARS AS EXTENSIONS OF THEIR DOMESTIC AGRICULTURAL POLICIES, TAKING ADVANTAGE OF THE UNITED STATES UNIQUE POSITION AMONG MAJOR COUNTRIES OF IMPOSING NO BARRIERS TO THE IMPORTATION OF CASEIN.

SUBSIDY LEVELS WITHIN THE EC ARE DESIGNED TO ALLOW CASEIN PROCESSORS TO REALIZE THE SAME RETURNS FROM CASEIN MANUFACTURE AND SUBSEQUENT EXPORT SALE AT WORLD PRICES AS COULD BE REALIZED FROM MANUFACTURING THE SAME SKIM MILK INTO NFDM AND SELLING IT DOMESTICALLY AT EC SUPPORTED PRICES. IN 1985, THE CASEIN PROCESSING SUBSIDY WAS SUFFICIENT TO ALLOW THE EXPORT OF CASEIN, FROM WHICH PROCESSORS REALIZED AT LEAST THE EQUIVALENT OF $1.70 PER POUND, AT THE WORLD PRICE

OF ABOUT .94 CENTS PER POUND.

CASEIN IMPORTS, UPON WHICH THERE ARE NO DOMESTIC RESTRICTIONS, AND OF WHICH MUCH IS IMPORTED INTO THE U.S. ONLY WITH THE HELP OF SUBSTANTIAL SUBSIDIES FROM FOREIGN GOVERNMENTS, ARE STEADILY INCREASING THE COSTS OF THE DAIRY PRICE SUPPORT PROGRAM AND INCREASINGLY INTERFERING WITH THE PROGRAM WITHOUT ANY CONCERN BY OUR GOVERNMENT.

MEAT-CHEESE PIZZA

CURRENT USDA POLICY PERMITS FROZEN MEAT PIZZA MANUFACTURERS TO SUBSTITUTE UP TO 90 PERCENT IMITATION CHEESE FOR THE REAL CHEESE IN THESE PRODUCTS. THE ONLY LABELING REQUIREMENT NEEDED TO INFORM CONSUMERS OF THIS PRACTICE IS THE SMALL PRINT OF THE INGREDIENT LIST. WHEN CONSUMERS PURCHASE FROZEN PIZZA, PACKAGING MATERIAL LEADS THEM TO BELIEVE THAT THEY ARE PURCHASING A PRODUCT CONTAINING REAL DAIRY CHEESE. SURVEYS HAVE PROVEN THAT THE MAJORITY OF CONSUMERS EXPECT REAL CHEESE TO BE ON ANY PIZZA PRODUCT THEY PURCHASE. GOVERNMENT LABELING REQUIREMENTS, OR THE LACK OF, ARE DECEIVING CONSUMERS WHO PURCHASE FROZEN PIZZA.

FURTHERMORE, WHEN PIZZA PACKAGING INCLUDES THE WORD IMITATION OR SUBSTITUTE PRIOR TO THE WORD CHEESE ON FROZEN MEAT PIZZA LABELS, CONSUMERS CLEARLY CHOOSE ANOTHER ALTERNATIVE EVEN THOUGH IT MAY NOT BE LABELED AS BEING MADE FROM REAL CHEESE.

IN 1978, THE DAIRY INDUSTRY HAD PETITIONED THE FEDERAL GOVERNMENT TO REQUIRE MORE PROMINENT LABELING OF CHEESE SUBSTITUTES OR IMITATION CHEESE IN FOOD PRODUCTS SO THAT CONSUMERS COULD TELL WHETHER A MEAT PIZZA PRODUCT WAS MADE WITH REAL CHEESE. IN EVALUATING THE INDUSTRY REQUEST, USDA ITSELF DETERMINED THAT BECAUSE CHEESE IS A MAJOR CHARACTERIZING INGREDIENT IN PIZZA, A CERTAIN MINIMUM CHEESE CONTENT

SHOULD BE ASSURED. USDA SO CONCLUDED THAT A MINIMUM REAL CHEESE REQUIREMENT OF 50% SHOULD BE ENFORCED.

IN 1983, USDA PROPOSED TO AMEND THE MEAT PIZZA REGULATIONS BY REQUIRING A DECLARATION ON THE PRINCIPLE DISPLAY PANEL WHEN IMITATION/SUBSTITUTE CHEESE WAS USED. THE PROPOSAL SAT ON THE SECRETARY'S DESK FOR FOUR YEARS AND HAS ONLY RECENTLY BEEN WITHDRAWN BY THE DEPARTMENT. USDA CONCLUDED THAT THE COMMENTS IN OPPOSITION TO THE PROPOSED RULE CHANGES WERE PERSUASIVE AND THAT THE NEW REQUIREMENTS WERE NOT NECESSARY.

WHAT WAS OVERLOOKED IS THAT MAJOR OPPONENTS OF THE PROPOSAL COMMISSIONED A CONSUMER STUDY THAT STATES CLEARLY IN ITS OVERVIEW AND I QUOTE, "...USDA LABELING REQUIREMENTS, IF ADOPTED, WOULD EXERT A NEGATIVE IMPACT ON SALES OF FROZEN PIZZA MADE WITH MOZZARELLA CHEESE SUBSTITUTE OR IMITATION MOZZARELLA CHEESE." THE STUDY FURTHER STATES, AND I QUOTE THAT, "PIZZA PACKAGES BEARING THIS TYPE OF LABEL (IMITATION/SUBSTITUTE) WERE REJECTED BY MORE RESPONDENTS THAN WAS A PACKAGE BEARING NO PROMINENT NAME-QUALIFIER LABEL. PACKAGES BEARING A 100% REAL NAME QUALIFIER ARE FAVORED BY CONSUMERS."

THESE STATEMENTS FROM THE MAJOR OPPONENTS OWN STUDY CLEARLY DISPLAY CONSUMERS PREFERENCE TO REAL CHEESE ON FROZEN PIZZA, IN ADDITION TO THE FACT THAT THEY ARE PURCHASING FROZEN PIZZA WITH THE UNDERSTANDING THAT IT DOES CONTAIN REAL DAIRY CHEESE. THIS ISSUE MUST BE CLARIFIED AND CORRECTED.

HR 3232, TRUTH IN LABELING LEGISLATION HAS BEEN INTRODUCED AND TO DATE SOME 69 COSPONSORS HAVE SIGNED ON IN SUPPORT OF THE MEASURE. STRONG BIPARTISAN SUPPORT OF THE BILL HAS COME FROM BOTH RURAL AND URBAN LEGISLATORS. CONGRESSMEN STENHOLM AND CAMPBELL ARE TO BE COMMENDED IN THEIR BACKING OF THIS MOST CRUCIAL LEGISLATION AS IT

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IMPACTS BOTH THE CONSUMER AND THE DAIRY FARMER.

FEDERAL ORDERS

THE AUTHORITY FOR ORDERLY MARKETING OF AGRICULTURAL PRODUCTS THROUGH FEDERAL ORDERS WAS ESTABLISHED BY CONGRESS IN THE AGRICULTURAL MARKETING AGREEMENT ACT OF 1937. AUTHORITY WAS GIVEN TO USDA TO ESTABLISH AND ADMINISTER THESE MARKET ORDERS AND PROVIDE A MEANS TO MAKE THE NECESSARY AMENDMENTS AS THE MARKET CHANGES MIGHT DICTATE. IN GENERAL, THIS PROCESS HAS WORKED WELL THROUGHOUT THE HISTORY OF MILK MARKETING ORDERS. I AM CONCERNED, HOWEVER, WITH THE ABILITY OF MARKETING ORDERS TO MEET THE CURRENT MARKET NEEDS OF DAIRY FARMERS AS THEY BECOME MORE OF A POLITICAL FOOTBALL WITH DECISIONS BEING MADE BASED UPON THE POLITICAL WISHES OF AN ADMINISTRATION RATHER THAN THE FACTS PRESENTED IN A HEARING. IT CONCERNS ME WHEN MARKET CHANGES DICTATE AMENDMENTS OR CONSOLIDATION OF ORDERS AND IT TAKES MORE THAN TWO YEARS TO GET A RECOMMENDED DECISION. IT ALSO CONCERNS ME WHEN POLITICS PREVENT THE USDA FROM HOLDING HEARINGS ON CLASS I DIFFERENTIAL ADJUSTMENTS AND MARKETWIDE SERVICE PAYMENTS, THEREFORE REQUIRING CONGRESS TO GET INVOLVED IN WHAT SHOULD BE HANDLED ADMINISTRATIVELY. IT CONCERNS ME EVEN MORE WHEN CONGRESSIONAL MANDATE IS IGNORED AND USDA REFUSES TO IMPLEMENT MARKETWIDE SERVICE PAYMENTS WHEN IT IS REQUESTED BY A MARKET. I BELIEVE IN THE FEDERAL ORDER SYSTEM AND FEEL THAT IT HAS SIGNIFICANTLY BENEFITED DAIRY FARMERS. I ONLY HOPE THAT WE CAN MAINTAIN A PROGRAM THAT IS RESPONSIVE TO MARKET NEEDS ON A TIMELY BASIS.

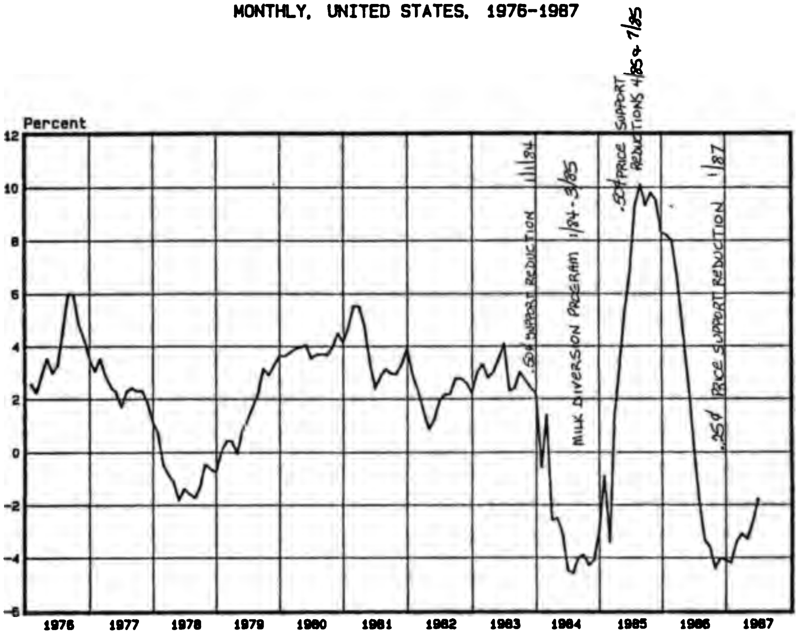
DAIRY FARMERS IN THE INTERMOUNTAIN REGION OF THE UNITED STATES ARE COMMITTED TO MEETING THE CONSUMERS NEEDS FOR MILK AT THE MOST ECONOMICAL PRICE POSSIBLE. THEY WILL NOT, HOWEVER, BE ABLE TO MEET

THOSE NEEDS IF A NATIONAL DAIRY POLICY DOES NOT ADDRESS THE NEEDS OF PROVIDING ADEQUATE RETURNS FOR THEIR INVESTMENT IN THE INDUSTRY. THE EVALUATION BY THIS SUBCOMMITTEE OF THE CONCERNS OF THE INDUSTRY IS IMPORTANT TO THE DEVELOPMENT OF SOUND FUTURE DAIRY POLICY. THANK YOU.

EXHIBIT

MILK PRODUCTION, PCT. CHANGE FROM PRIOR YEAR

MONTHLY, UNITED STATES, 1976-1987



Harold Yoder
President, Colorado Cattlemen's Association

Mr. Chairman, thank you for allowing the Colorado Cattlemen's Association to participate in this important hearing this morning. My name is Harold Yoder, and I am President of the Colorado Cattlemen's Association. I am a rancher from Karval, Colorado and have been actively involved in the Colorado cattle industry since 1964. The Colorado Cattlemen's Association was founded in 1867 and presently represents in excess of 2,700 cow/calf operators in the State of Colorado. I am pleased to address this subcommittee on the 1985 Farm Bill and its effect on the domestic livestock industry in this area.

There are four areas of the Agriculture, Food, Trade and Conservation Act of 1985 which I would like to address. Those are: the Dairy Termination Program, the Beef Promotion and Research Act, Production Control and AG Credit.

First, the DAIRY TERMINATION PROGRAM. It remains no secret that the Diary Termination Program dealt the U.S. cattle industry a severe blow. The market supply was drastically increased over a relatively short period of time, driving prices down. I would like to point out however, that cattlemen abided by the program and toughed it out. The important aspect at this time is that, according to the 1985 Farm Bill, the Dairy Termination Program is over! Our association has received some information within the last 48 hours that the dairy industry is moving in such a direction that could actually increase milk production and the numbers of dairy cows at a time when both should be cut back.

The dairy industry is in the process of increasing their promotional asssessment by .05 to .10 per hundred weight. They contend that such an increase in their dairy promotion program would incease milk consumption by 8 - 900 million pounds according to their estimates. This 8 - 900 million pounds of milk would then be subtracted from the 5 billion pound limit stated in the Farm Bill, thus keeping them below this ceiling. Such action would enable dairymen to prevent a .50 per hundred weight cut in their support price.

The fact is, the cattlemen are not concerned with what the dairymen are charging for their promotion fees, nor do we care what the dairymen want to charge for their product. The point we must raise, however, is that there is no gurantee that an increase of such nature in promotion fees would have a stated affect on consumption. Such estimates cannot be made. If such a program is adopted, it would encourage dairymen to increase production and herd size at a time when they should be liquidating. We do not need extra incentives provided for dairymen which will necessiate another Dairy Termination Program in the future to artificially thin them down again. We have helped them out once, at great cost to ourselves, and we are not about to agree on a repeat of such a program. The cattle market is simply too weak to sustain a blow like that again.

I would next like to address the BEEF PROMOTION AND RESEARCH ACT and the effect that this program has had, thus far, on the Colorado livestock industry. The Colorado Cattlemen's Association supports the Act that assesses cattlemen a $1.00 per head charge for animals sold. We feel that the program has gone very smoothly in Colorado since its inception in May of 1986. Collections through the Colorado State Brand Board have been very successful with relatively few ranchers objecting.

With regard to the Beef Promotion and Research Board and Beef Operating Committee, it is the feeling of the Colorado Cattlemen's Association that members were selected fairly and equitably, and that every state has the proper representation given its size and capacity of cattle. Apart from that, the program is waiting for the final referendum which will occurr no later than May of 1988. We feel that the 24 month trial period prior to the referendum was an adequate time for Colorado ranchers to test the program and establish for themselves its assets and liabilities.

The Colorado Cattlemen's Association believes that the success of this program so far, and in the future, is due primarily to the fact that this is an Act for cattlemen, run by cattlemen and monitored by cattlemen. There has been no government interference thus far. For this program to be as successful, it must remain that way.

Next I would like to speak on <u>PRODUCTION CONTROL.</u>

The Colorado Cattlemen's Association foremost concern in this area is that of haying and grazing. We are deeply concerned about the 50-92 farm program option which has recently been impemented in 45 states. This program supports the haying and grazing on diverted federal farm program acerage. Colorado is currently one of four states whose Agriculture Stabilization Conservation Service (ASCS) Committee has chosen not to go along with the majority of states, and has allowed <u>only</u> grazing on C.U. acres for the 1987 program year. It is the feeling of the Colorado Cattlemen's Association that the parameters set by the 1985 Farm Bill for wheat and feed grain programs must be equitable for all states, thereby affecting all agricultural producers in the United States in the same way. If this is not done, an unfair competitive edge exists for those states who have gone along with the program over those ones who are being held back.

Apart from the aspect of equalization in order to provide fair competition, the Colorado Cattlemen's Association would like to go on record as supporting the National Cattlemen's Association stand opposing haying and grazing on diverted federal farm program acerage which is being diverted as a result of a direct payment, be it cash or payment in kind. An exception would be made here in the case of drought or other emergency so deemed necessary by the Secretary of Agriculture. The Colorado Cattlemen's Association further opposes haying and grazing on diverted federal farm program acerage which is being diverted as a result of a condition of contract and no direct payment is being made. Again, in the precence of drought or other emergency, an exception would be made.

To conclude on Haying and Grazing, the 1985 Farm Bill must direct all states to act equally if it is to fairly and justly affect all states in a non biased way. For segments of the Bill to be left up to certain agencies in the state for interpretation or final judgement provides an unfair disadvantage to those states and prevents them from entering into a competitive atmosphere that is equal to all.

Finally, with regard to AGRICULTURE CREDIT, I would like to address the Clear Title Legislation segment of the Food Security Act. In short, the Clear Title concept is good and badly needed, however the paperwork nightmare that has been created for our banks is very unnecessary. We must establish a method of tracking buyers and notifying creditors that will not create the backlog of useless paperwork our banks are currently experiencing.

In summary, the 1985 Farm Bill has been a tool that, for the most part, has enabled the Colorado rancher to continue his business without too much interuption. Apart from the Dairy Termination Program, the Bill has not interferred with the the operations of our members and should be maintained the way it was established, 2 years ago.

It remains the long-range goal of the Colorado Cattlemen's Association to rid ourselves from all agriculture subsidy programs as soon as possible. While we realize that it is impossible to abolish such programs immediately, this organization feels that such programs serve only to artifically maintain distorted prices and ultimately put cattle ranchers, and the whole of agricIture, at an unfair advantage. To disassociate ourselves from the federal government is our current policy and remains our ultimate goal. Until such time as this can be achieved, we will continue to work with the government, offering our feedback and voicing our opinion, and to work with other ag groups to better facilitate a solution to this problem.

Again Mr. Chairman, I thank you for the opportunity to address this hearing.

Robert E. Bledsoe, President

Colorado Cattle Feeders Association

Mr. Chairman, on behalf of the Colorado Cattle Feeders Association, I would like to thank you for this opportunity to testify before your committee in reference to the 1985 Farm Bill. My name is Robert E. Bledsoe, I am President of the Colorado Cattle Feeders Association and partner of Bledsoe Cattle Company in Wray, Colorado. My father and I own and operate a 5,000 head capacity feedlot as well as farm 7,000 acres of irrigated farm land, 375 acres of dryland and 60,000 acres of pasture. We operate in both Colorado and South Dakota, with our headquarters in Yuma County, Colorado.

I would like to first address the issue of haying and grazing of diverted federal farm program acerage. The Colorado Cattle Feeders Association fully supports the National Cattlemen's Association's position of opposing haying and grazing of these acres. This position is the correct national policy. As we discovered this current crop year, when a policy of this magnitude is allowed to be directed on a state by state basis, some states may be put in a very distinct economic disadvantage in comparison to neighboring states.

As I am sure that you are aware, Colorado is one of only four (4) states in the nation that is not allowing the mechanical harvesting of conservation use acres. This is no longer an issue of whether or not haying and grazing should be allowed, but is an issue

of equity among all states. The cattle feeding industry in Colorado is the fourth largest industry in the state. The cattle feeding industry is very competitive from feedlot to feedlot. The differing cost of the "gain" put on each head of cattle can mean the difference between net loss or profit, or a feeding customer returning to a commercial feedlot year to year. When one feedlot is given an economic advantage over another, due only to which side of a state line their operation is on, an obvious injustice has occurred. A national policy is the only equitable correction for this situation.

A current problem that cattle feeders have, concerns the notice to authorize additional loan provisions for eligible producers of 1987 crop of high moisture corn or grain sorgum. (Notice LP-1173) High moisture corn harvest in Colorado is three (3) weeks away. This program concerns producers who dispose of their high moisture grain through commercial feedlots. At this time, we have been unable to get a definition of a "commercial feedlot". Feedlots who own 100% of their cattle on feed, should not be descriminated against. Our Association desperately needs a fast resolution of this potential problem.

The next issue I would like to comment on is the Dairy Termination Program. A lot has been said about this program and the way it occurred is unfortunate, but the program is over.

Cattle feeders, marketing finished cattle during the first few months of the program, were seriously hurt financially. The concern of the Colorado Cattle Feeders Association, is what happens from this time on. The dairy producer needs to survive, but not at the expense of the beef cattle industry. The dairy producer is a major part of the beef industry, so we are sure he does not want to see that industry put in jeopardy again. Currently, there is a large dairy surplus, that needs to be reduced. We would hope that <u>any</u> program aimed at reducing this surplus is focused on the beef industry as a whole. The diary producer does not need incentives to produce additional milk. Any artificial means to reduce the current formulation for figuring the level of milk surplus would encourage more production and would eventually harm the beef cattle market place.

I would also like to comment on the U.S. Farm Bill of 1985 in respect to the Beef Promotion and Research Act, which the Colorado Cattle Feeders Association whole heartedly supports. This Act enabled the collection of funds to be used for beef promotion and research into the marketing of beef and beef products. After an eighteen month trial period, the producer will have the opportunity to decide whether or not the program has been a benefit to the beef industry, and if the program should continue. This has been a self help program and has not cost the government any money.

Lastly, I would like to address the issue of the $50,000 limit per individual or farming entity set by the 1985 Farm Bill. This limit has inadvertantly discriminated against the economically sized farm operation. Most self supporting farms achieve this limit in a short amount of time, creating an unequal bias toward the small and in many cases part-time farming operations. The affect of this situation needs to be considered. Removal of the $50,000 limit will bring a vast majority of the land into compliance, thus reducing the total program expenditures because the increased compliance would reduce acerage, thereby raising commodity prices. There should be no limit set for operators who receive over 2/3 of their income from agriculture production.

In summary Mr. Chairman, the Colorado Cattle Feeders Association feels the 1985 Farm Bill as a whole has had, and continues to have positive affects on the agriculture industry in the state of Colorado. As with any act of this magnitude, problems have arisen. We urge that this farm bill not be reopened at this time, but allowed to run it's course. We would encourage some minor modification and refinements to this bill. The cattle feeding industry does not rely on any government supports or subsidies. The Colorado Cattle Feeders Association hopes that the entire agriculture industry may become self supporting and free of government assistance.

Mr. Chairman, I again thank you and your committee for the time to address this hearing.

TESTIMONY OF BUD MEKELBURG

on behalf of

COLORADO COALITION TO SAVE RURAL AMERICA

My name is Bud Mekelburg, Executive Director of the Colorado Coalition to Save Rural America, a grassroots organization located in Otis, Colorado, about 130 miles east of Denver.

The Coalition strives to develop policy, change existing policy in agriculture and have developed a successful program of information, mediation and/or litigation between producer and lender.

I was a farmer and still live on the farm. I rent out a few hundred acres of what was once providing full time employment for four families.

None of us present today, unless you are about 60 or more, can remember the depression of the 1930's. However, what we are experiencing today in agriculture and other sectors of the economy, will be deeply imprinted on our minds for a long time in the future.

A question debated by Congress and rural Americans is, are we on the bottom of this cycle yet? Have land prices stabilized? Have commodity prices started an upward curve to higher levels? Some sectors, such as livestock, have realized some profitability.

A percentage of all producers depending on debt and other factors have held their units together; but what about the untold percentage of thousands of producers whose fate or future is yet undetermined. I don't think anyone can project the numbers of billions of dollars of debt yet to be wrung out of the agriculture economy.

The Colorado Coalition to Save Rural America has been involved with two farmers over the last several months who have new loans written by their lenders, who

can cash flow under today's government payments' program and price structure and have shown a profit. To do this the Farm Credit System has had to write off over one million dollars of debt on these two cases.

The Farm Credit System, Farmers Home Administration and the commercial banks have untold billions of both performing and non-performing debt to be written from their books. What are the ramifications of these kinds of problems going to have on the U.S. economy? What kinds of policy needs to be developed to deal with both the long and short term issues involved?

I have personally paid off and compromised over $600,000 of debt over the last several months. My personal debt remaining can be completely paid off over the next three or four years if I stay with my plan. My operation, at the same time, has been reduced greatly in size and scope of operation.

These kinds of examples are being done by thousands all over America by both producer and lender. The effects of this has, as we all know, been the loss of thousands of family farms and several hundred commercial banks and businesses.

Previously I asked the question of what are the ramifications of this and the kind of policy that needs to be developed. I submit to you we cannot answer these questions now. We are fixing band-aid type remedies to a very large complex national problem. I am dealing with my problem as are many thousands of other farmers, ranchers and businesses all acrosss America. We are dealing with the tough issues of going out of business, restructure or whatever it takes to resolve our problems.

What should concern all of us today is what can, or how can, Congress address the real national issues such as the national debt and the trade deficit.

If these two issues are not resolved in a timely manner I believe certain sectors of our economy, such as agriculture, has at least ten more years of tough economic times with the worst yet to come. How can we pay the interest, let alone any principal, on a national debt based on a service, high-tech economy. Those

who are going to stay in production agriculture must pay overhead expenses, principal and interest by the generation of new dollars. Is our nation any different. Congress has allowed this nation to trade jobs for cheap imports for the benefit of our consumers for the benefit of the large banks to get payments on foreign debt.

We have no national energy policy, no industrial policy and an agricultural policy designed for the destruction of the family farm, the phase out of rural commercial banks through the bank deregulation act. You are searching for ways to save the Farm Credit System by centralization of the System by mandate with no imput from the stockholders. The Farm Credit System cannot charge good customers 11½ percent interest and new customers buying inventoried property eight percent interest.

Congress must deal with issues such as the "merger madness". Banks and investment houses have billions for mergers but no money for many farmers who can cash flow.

Many say the 1985 Farm Bill is working. How can it work when it takes nearly 30 billion dollars from the Federal Treasury. Before this agriculture problem is finished, I predict we will have some kind of supply management program adopted based upon the market place paying for the profits back to the producer and not from the government.

I have raised several issues of what we feel are of prime importance. There are many more. This whole debate is very complex and many factors interplay and cross national boundary lines, but the American people are anxiously waiting for Congress to bit the bullet and make the hard decisions.

We must pay our debts as a nation. To do this we must rebuild our "sun set" industrial base in conjunction with our high tach service economy. Agriculture must be central to providing its share of new dollars for the repayment of national debt also.

Since January 1, 1987 the Colorado Coalition has received over 1700 calls

for assistance, for sources of credit, for mediation or legal information. We deal with the tough cases every day. The farm crisis is not over. Unless Congress addresses the issues we have mentioned plus other important issues addressed here today, I reaffirm we have not seen the bottom yet and the Great Depression of 1990 will happen on schedule as predicted by Dr. Raui Batra of Southern Methodist University and Magaziner as quoted in the Rocky Mountain News Sunday, August 30, 1987.

Thank you.

(Attachment follows:)

101 North Washington • Box 231 • Otis, Colorado 80743 • 303-246-3414, 246-3415, or 246-3416 (Hot Line)

COLORADO COALITION TO SAVE RURAL AMERICA

PROGRESS REPORT

SEPTEMBER 1, 1987

the Colorado Coalition to Save Rural America is a grassroots response to the agricultural crisis now affecting Colorado. This report covers the period from June 1 to August 31, 1987.

1. Number of calls:

Three month period ending August 31, 1987:

Logged calls:	401
Unlogged calls:	184*
Total:	585

*Unlogged calls are those received by the Executive Director at his home during the three month period.

Of the 401 logged calls for the three month period, this breakdown can be made: 351 were from Colorado; 12 from Washington, D.C., 8 from Kansas, 5 each from Texas and Utah, 3 from New Mexico, two each from Louisana, Missouri, Montana, Nebraska, New York, Oklahoma and Oregon, one each from Massachusetts, Minnesota and Wyoming.

2. Types of calls:
   - 28 calls were for emotional assistance.
   - 5 calls were for financial assistance and aid, re: food, emergency aid.
   - 327 calls were for information regarding legislation, S. B. 123, Bankruptcy, and legal information.
   - 136 calls were for mediation help and information.

3. Identification of caller areas within Colorado:
   - (a) list of counties, last page of progress report
   - (b) 19 counties had between 1-9 calls.
   - (c) counties which did not call in during reporting period were:
     Arapahoe, Archuleta, Baca, Chaffee, Cheyenne, Clear Creek, Costilla, Custer, Dolores, Eagle, El Paso, Fremont, Garfield, Gilpin, Grand, Hinsdale, Huerfano, Jackson, Kiowa, Lake, La Plata, Las Animas, Mineral, Moffatt, Ouray, Park, Pitkin, Rio Blanco, Rio Grande, San Juan, San Miguel, Saguache, Sedgwick, Summit, Teller.

4. Ratio of male/female callers:

Of the calls coming into the Coalition office during this reporting period, 274 were male callers and 127 were female callers.

5. Use of office:

Farmers and rnachers utilize the Coalition offices for mediation and special legal days purposes. Average number of individuals who come to the office during this reporting period, per day is two. Six days had been utilized for days when farmers and ranchers could meet with legal help with bankruptcy. Since June, 50-60 people have benefitted from this program.

6. Achievements of the program during the past three months:

June, 1987:
18: Luman Holman meeting, Otis
20: KOA Radio program featuring Coalition members
23-24: legal days, Otis

July, 1987:
10: Hands Across America meeting, Durango

August, 1987:
24: Rural ministry education (conference set-up), Denver
23: Coaltion picnic, Otis
27-28: legal days, Otis

In the past three months 9 meetings have been held by Coalition Chapters and support groups in Otis, Denver and Byers. The Executive Director of the Coalition and the Director of the Rural Coalition Hotline have held 34 presentations to approximately 1,700 people.

Calls to the Colorado Coalition to Save Rural America by county for the three month period of June 1 to August 31, 1987:

Adams	5
Alamosa	4
Bent	2
Boulder	4
Conejos	4
Delta	1
Denver	87
Douglas	3
Elbert	1
Gunnison	4
Jefferson	1
Kit Carson	5
Larimer	15
Lincoln	10
Logan	13
Mesa	6
Montezuma	3
Morgan	23
Otero	3
Phillips	11
Prowers	6
Pueblo	4
Routt	1
Washington	35
Weld	6
Yuma	63
Anonymous	27
Total:	351

Out of State:

Washington, D.C.	12
Kansas	8
Texas	5
Utah	5
New Mexico	3
Louisana	2
Missouri	2
Montana	2
Nebraska	2
New York	2
Oklahoma	2
Oregon	2
Massachusetts	1
Minnesota	1
Wyoming	1
Total:	50

Colorado calls:	351
Out of state:	50
Total:	401

My name is Lawrence Aubert and I reside at 211 Country Club Park, in Grand Junction, Colorado.

At the conclusion of World War 11 I purchased an interest from my Father in a sheep and cattle ranch that he began in 1915 after immigrating to the U.S. as a young man. I have since sold an interest to my son, who is operating it today.

I appear before you to convey some thoughts of members of the Farm Credit Service Center Board of Directors of Western Colorado concerning Farm Credit.

The above mentioned board represents farmers and ranchers from 18 counties west of the Contintental Divide inColorado, who are borrowers/stockholders of Farm Credit Services.

The area is diversified in the production of agriculture crops, including most grains, fruit and grapes, dairy products, lambs, wool and cattle.

It is not my intent to address specific legislation, but to relate what we perceive should be an integral part of a Farm Credit bill.

Credit is imperative to farmers and ranchers. We fully support a sound and competitive Farm Credit System. To be competitive legislation is needed that mandates streamlined operations. From our standpoint, all that is needed is an entity to deliver credit. That entity should be Production Credit Associations and Federal Land Bank Associations administered by management held responsible to association Boards of Directors elected by the borrower/stockholder. We strongly feel only one entity should regulate those lending activities. That entity being the Farm Credit Administration, to whom management and Board of Directors of the Association be accountable. The 12 District banks should remain in place, but would act as regional center banks and provide non-lending, non-management services as requested by associations.

Banks must no longer be allowed to duplicate FCA responsibilities as they now do. Bank activities of association credit approval, association supervision and review are duplication of FCS responsibilities that farmers can no longer afford.

A major factor for the plight of the system is the leaving of many financially strong borrowers to other lenders. Lower interest rates and the fear of impairment of their stock are the primary reasons. We need to be

competitive in interest rates, and strengthen borrower confidence in the Farm Credit System and halt borrower flight. A seven year government guarantee of borrower stock would accomplish this.

If and when Federal Funds are appropriated to "Bail Out" the system a board should be established to determine the amount and place for such assistance. Such board should not be envolved with troubled loans, foreclosures, acquired properties and other activities that can and should be handled on the association level. To do so creates another layer of beauracracy that we don't need nor can afford. Restructuring of loans should be expanded, but only if restructuring is less costly to the system than any other alternative.

Borrowers should be informed of forebearance and restructuring policies, change in the appraisal value of collateral and have access to all their loan documents. However, legislation relative to borrowers rights should not limit or deter lenders from making loans.

As you know the PCA's and FLB's were created by congress with monies from the U.S. Treasury at a time when credit was very much needed by farmers and ranchers. Every one of those dollars were repaid to the U.S. Taxpayer with interest. A source of credit at the lowest possible cost is as much needed today as then. Again we intend to repay the taxpayer every cent of financial assistance. Legislation should encorporate a method to do just that.

Acquired properties should be sold in a timely manner unless doing so would have a determental effect on farmland values in the area. Properties should be sold to persons in the area after public notice of pending sale. Adjacent land owners should be informed of such sales.

We expect legislation to achieve five primary objectives:

1. Strengthen borrower confidence in the Farm Credit System and halt borrower flight.
2. To stablize the system's financial condition and provide the financial resources necessary to price it's products competively.
3. To enhance farmer control and ownership of the system.
4. To provide the financial resources necessary for the system to be more responsive to borrower needs.
5. To assure a dependable source of credit for the lowest possible cost to farmers and ranchers.

The Farm Credit System has made some mistakes. It is not perfect. It must change. But the fundamental problem is not with the system, but the downward plunge of commodity and livestock prices, which in turn forced land prices down. The government deserves a good share of the blame for the lack of profitability in agriculture. We lost most of our export market because our reliability was destroyed by embargoes and huge Federal deficits has caused our dollar to be overvalued.

The American consumer is the best fed and clothed for the least amount of money of any nation on earth. We want to keep it that way.

Thank You.

TESTIMONY OF DAVE CARTER

NATIONAL SECRETARY

NATIONAL FARMERS UNION

Mr. Chairman, Congressman Stenholm, and Congressman Campbell, my name is Dave Carter, and I am the Secretary of the National Farmers Union, a general agricultural organization representing 250,000 farm and ranch families throughout rural America.

As a grassroots organization, the Farmers Union advocates policies which our members believe are necessary to strengthen family agriculture and rural communities. That is the reason for our testimony here this morning.

First, Mr. Chairman, I want to thank you for the leadership you demonstrated in steering the mark-up of the House Agriculture Committee's farm credit legislation prior to the August recess. The package which emerged from your committee addresses many of the critical issues which threaten the stability of farm lenders and borrowers alike.

The committee's package makes great strides in assuring the survival of the Farm Credit System while promoting stability for all borrowers and addressing the needs of producers facing debt repayment problems.

With the inclusion of amendments to assure producer representation on the Secondary Market Board, to provide adequate funding for restructuring of the Farm Credit System, and to emphasize mandatory mediation, the Farmers Union believes the legislation will clearly address the short term credit problems which have contributed to agriculture's instability.

As an aside, I urge Congress to monitor the implementation of any package, and particularly those provisions which affect the USDA's Farmers Home Administration. Too often during the past seven years the policies enacted by Congress have not been properly administered by the FmHA.

The Coleman vs. Block and Coleman vs. Lyng cases of 1984 and 1987 are a case in point. In both instances, federal courts had to intervene to drag Farmers Home, kicking and screaming, into compliance with the laws enacted by Congress. Research conducted by the North Dakota Farmers Union this spring found that the majority of Farmers Home Administration borrowers filing Chapter 12 bankruptcy in that state this spring were utilizing the new law to accomplish debt restructuring objectives which are listed as a viable solution under administrative procedure.

But, Mr. Chairman, I do not want to dwell too much on the short term credit problems affecting agriculture. Rather, I want to spend the bulk of my time this morning discussing the long term issues which will return real stability to the American countryside.

The Farmers Union strongly believes that increased agricultural incomes and stability are imperative for the future health of rural America.

Much attention has been given over the past few months to the "turnaround in the agricultural economy. "We, too, are encouraged to see increases posted in overall agricultural incomes and in some commodity prices.

But we need to recognize the reality of this perceived "turnaround".

Let's look at the factors.

According to the U.S. Department of Agriculture, roughly 60 percent of the income received by grain producers during the past two years came from deficiency payments. Those deficiency payments accounted for a major portion of the $26 billion spent during those two years on federal farm programs.

These deficiency payments are an integral part of the Food Security Act of 1985, which, itself, is developed around the premise that lowering the marketprice of commodities while protecting agricultural income in the short term will enable the United States to supposedly recapture export markets lost over the past several years.

The money flowing from the federal treasury into the countryside has enabled many farmers to survive during the past two years. This policy cannot be sustained, and, more importantly, it has done nothing to rebuild a foundation for long-term stability in rural America.

It is rapidly becoming apparent that the amounts spent on deficiency payments cannot be continued indefinitely. Already, criticism has erupted in the media over current levels of agricultural spending. Perhaps the most voracious attack to date is the series airing this week on the NBC Nightly News.

The Farm Bill already calls for a gradual decline in Target Prices over the next three years. The Reagan administration has gone a step further, and has drafted legislation which would mandate a 10 percent cut in the Target Prices.

The most drastic proposal to date to alter the 1985 Farm Bill is the option, which would allow producers to obtain 92 percent of their farm benefits, even if they do not harvest a crop. This proposal has some merit as a disaster plan. But as a cornerstone of farm policy, it smacks open an agricultural welfare plan, and has already been dubbed as such by Scripps Howard and other newspaper chains.

Farmers don't want welfare, they want income and stability from the marketplace.

We agree with Farm Bill critics that federal farm program expenditures are too high. And, we feel that substituting

government payments for market income will not return stability to American agriculture.

But the policy adopted by the member-delegates at the most recent National Farmers Union annual convention this year reaffirms our organization's long-standing commitment toward increasing the commodity loan levels--and thus the market price--rather than decreasing the Target Price.

As an immediate step, we advocate the repeal of the Findley Amendment, which has enabled the Secretary of Agriculture to lower the commodity loan levels below the floors established in the FSA 1985. According to our analysis, repeal of the Findley Amendment would generate more than $4 billion in budgetary savings while increasing the real market price of agricultural commodities.

Our critics say that continued low loan levels--and thus market prices--are needed to enable us to regain our competitiveness in the world marketplace. But the facts prove otherwise.

According to the Foreign Agricultural Service of the U.S. Department of Agriculture, income from farm exports earlier this year had increased by only one percent even though the volume of exported commodities had increased by 23 percent.

Further, the increase in volume came about only after the federal government piled additional export subsidies on top of the already-low prices mandated under the FSA 1985. The General Accounting Office reported last fall that, in some instances, the value of the export subsidies exceeded the value of the farm commodities.

It doesn't make sense to spend taxpayer dollars to export commodities at below the cost of production simply for the sake of exporting commodities.

The National Farmers Union and several other agricultural, labor, religious, consumer and senior citizens organizations, believe strongly that implementation of strong supply-management legislation is the key to returning real stability and prosperity to the American heartland.

The policy adopted by the delegates at our 1987 National Convention specifically endorses the concepts contained in HR 1425, The Family Farm Act.

This legislation addresses the structural problems plaguing agriculture - with a series of coordinated steps.

First, it would propose a supply-management structure to harness agricultural production with actual market demand. As a part of that program, program benefits would be linked directly

with the amount of commodity marketed, rather than solely through acreage reduction programs.

A producer referendum would enable farmers to exercise democratic control over the adoption of this concept. If a majority vote prevails, mandatory participation will assure the success of the program.

Further, the transition program outlined in the legislation will protect livestock producers--and particularly the family-sized feeding operations--from adverse financial consequences.

The trade provisions contained in the legislation are designed to foster negotiations, rather than confrontations in the export marketplace.

Much attention has been given to the documentation which supports the intent of this legislation in bolstering domestic market prices. But too little attention has been given to the international aspects of this proposal.

R 1425 recognizes that low commodity prices are harming not only American agricultural producers, but farmers and ranchers throughout the world. Total Third World debt at the end of 1986 was estimated at $1 trillion. The exports upon which the U.S. farm sector is targeting are increasingly dependent upon these debt-laden markets.

But those countries are facing increasing pressure to keep their debts paid. As U.S. Sen. Bill Bradley noted earlier this year, that debt is forcing those countries to go all out to export commodities at rock-bottom prices ,which only further depresses prices. At the same time, any revenue from those exports is being channeled toward servicing the debt, rather than buying U.S. products.

In his autobiography, Lee Iacocca wrote, "The United States is the only country which comes even close to practicing free trade, and we get clobbered."

That quote summarizes the approach that other countries have taken in protecting the economic stability of their domestic industries, including agriculture.

The Reagan administration has called for a dismantling of these policies by the year 2000. Few countries are anxious to dismantle programs which provide for domestic stability and security.

Rather, most of the developed countries appear willing to sit down at the table to develop global supply-management and marketing agreements. Francois Guollaume, the Minister of Agriculture for France, has even advocated the establishment of an export "cartel" to stabilize world production and marketing.

In the late 1970's, Sens. John Melcher, George McGovern and Henry Bellmon advocated the establishment of global supply-management policies. They found a welcome reception among governmental officials in Canada and the European Common Market.

But the momentum for that initiative was lost in the rush for "free market" policies in the 1980's. It is time to re-establish those efforts.

As respected economist John Kenneth Galbraith told the National Governors Association in July, "This (agriculture) is the only major industry worldwide which has no control over its supply. We must have an apparatus in place that, with requirements on other countries, keeps a limit on this industry."

Mr. Chairman, the National Farmers Union believes that adoption of the Family Farm Act would mark the beginning of the return of real stability and prosperity to the American heartland. Agriculture and rural communities do not benefit from volatility. Only stability can allow the family-sized entrepreneurs to make the long-range planning decisions necessary to survive into the next century.

Again, Mr. Chairman, we appreciate this opportunity to testify on this critical area of America public policy.

END

Agri

JAY HICKERT

NINTH FARM CREDIT DISTRICT BOARD OF DIRECTORS

MR. CHAIRMAN, CONGRESSMAN CAMPBELL, MY NAME IS JAY HICKERT. I AM A FARMER AND CATTLE FEEDER FROM AKRON, COLORADO. I'M ELECTED TO SERVE AS VICE-CHAIRMAN OF THE BOARD OF DIRECTORS FOR THE NINTH FARM CREDIT DISTRICT AND THE WICHITA DISTRICT FARM CREDIT COUNCIL.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, WE ARE HONORED TO HAVE YOU AS OUR GUESTS IN COLORADO. WE COMMEND YOU FOR COMING TO OUR STATE AND HEARING OUR CONCERNS. WE ARE ESPECIALLY GRATEFUL TO CONGRESSMAN CAMPBELL FOR HIS SERVICE ON THE AGRICULTURE COMMITTEE AND FOR BRINGING ALL OF YOU TO COLORADO.

THE LIVESTOCK INDUSTRY IS A VITAL PART OF OUR NATION'S AGRICULTURAL ECONOMY. IN FACT, THE LIVESTOCK AND MEAT SECTOR IN THE FOUR STATES OF OUR FARM CREDIT DISTRICT GENERATES $7.7 BILLION DOLLARS -- MORE DOLLARS THAN ANY OTHER SECTOR OF THE ECONOMY. THE STRENGTH OF THE LIVESTOCK INDUSTRY IS VERY IMPORTANT TO US.

IN OUR DISTRICT, APPROXIMATELY 61 PERCENT OF GROSS CASH RECEIPTS IN AGRICULTURE IN 1985 CAME FROM LIVESTOCK AND 39 PERCENT CAME FROM CROPS, NOT COUNTING GOVERNMENT PAYMENTS.

LIVESTOCK PRODUCTION, AND IN PARTICULAR CATTLE FEEDING, CAN BE VERY CAPITAL INTENSIVE. GIVEN THE CYCLICAL NATURE OF THE LIVESTOCK BUSINESS AND AGRICULTURE IN GENERAL, CREDIT IS ESPECIALLY IMPORTANT FOR THE FARMER AND RANCHER.

AGRICULTURAL CREDIT IS A NECESSARY AND USEFUL TOOL FOR THE LIVESTOCK PRODUCER. WE IN THE FARM CREDIT SYSTEM OFFER VARIOUS TYPES OF CREDIT SERVICE, FROM LONG-TERM LOANS FOR FARM AND RANCH REAL ESTATE TO SHORT- AND INTERMEDIATE-TERM

FINANCING FOR FEEDLOT OPERATIONS.

THE FARMERS AND RANCHERS OF AMERICA NEED A RELIABLE SOURCE OF CREDIT. THE FARM CREDIT SYSTEM IS INTENDED TO PROVIDE THAT SERVICE.

AS WE CONSIDER THE LIVESTOCK SECTOR AND AGRICULTURAL CREDIT, LET US REMEMBER ONE FACT FIRST AND FOREMOST: THE FUNDAMENTAL LONG-TERM SOLUTION TO AGRICULTURAL DEBT PROBLEMS IS MORE PROFIT IN FARMING AND RANCHING. FOR TOO MANY FARMERS, AGRICULTURAL INCOME IS SIMPLY NOT ENOUGH TO SERVICE THE DEBT.

MORE PROFIT IN AGRICULTURE WOULD HELP FARMERS SERVICE THEIR DEBTS AND AVOID FORECLOSURE AND DISTRESS IN OUR RURAL COMMUNITIES. WHATEVER YOU CAN DO TO STRENGTHEN THE FARM ECONOMY WILL BENEFIT FARMERS, LENDERS, RURAL COMMUNITIES, AND ULTIMATELY THE ENTIRE NATIONAL ECONOMY.

IN THE SHORT TERM, MANY AGRICULTURAL DEBT PROBLEMS REMAIN. THE CONSEQUENCES OF A 50 PERCENT DROP IN LAND VALUES AND SEVERAL YEARS OF LOW CROP PRICES ARE STILL BEING FELT BY FARMERS AND THE FARM CREDIT SYSTEM.

IF IT IS IMPORTANT TO THE LIVESTOCK SECTOR TO HAVE A STRONG FARM CREDIT SYSTEM, THEN WHAT SHOULD BE DONE TO ACCOMPLISH THAT GOAL? WE BELIEVE THE CONGRESS SHOULD ENACT LEGISLATION THIS YEAR TO SHORE-UP THE SYSTEM.

OF COURSE, THE AGRICULTURE COMMITTEE WORKED LONG HOURS TO FINISH THE FARM CREDIT ASSISTANCE LEGISLATION, H.R. 3030, AND WE APPRECIATE YOUR EFFORTS. CHAIRMAN DE LA GARZA AND CONGRESSMAN STENHOLM ARE TWO OF THE MAJOR ARCHITECTS OF THE LEGISLATION. H.R. 3030 HAS MANY FEATURES WHICH ARE BENEFICIAL TO

FARMERS AND WHICH WE STRONGLY SUPPORT. THE LEGISLATION WOULD PROVIDE A 5 YEAR GUARANTEE OF STOCK OWNED BY OUR MEMBER-BORROWERS, AUTHORIZE FINANCIAL ASSISTANCE TO SYSTEM INSTITUTIONS, AND CLARIFY CERTAIN POWERS OF THE FARM CREDIT ADMINISTRATION.

IMPORTANTLY FOR THE NINTH FARM CREDIT DISTRICT, THE LEGISLATION WOULD AFFECT THE LOSS-SHARING PAYMENTS MADE BY SYSTEM ENTITIES IN 1986 AND 1987. THE IMPACT OF THESE LOSS-SHARING PAYMENTS IS POTENTIALLY QUITE LARGE. IN 1986, THE FEDERAL INTERMEDIATE CREDIT BANK OF WICHITA AND THE WICHITA BANK FOR COOPERATIVES MADE PAYMENTS TO OTHER SYSTEM ENTITIES OF $8.0 MILLION AND $5.9 MILLION, RESPECTIVELY. HOWEVER, THE FEDERAL LAND BANK OF WICHITA RECEIVED A COMMITMENT FOR $212.6 MILLION IN ASSISTANCE. MOST OF THAT HAS BEEN USED, BUT SOME REMAINS NOT YET PAID.

H.R. 3030 WOULD REVERSE ANY LOSS-SHARING PAYMENTS OR COMMITMENTS THAT WERE MADE BUT NOT CASHED IN BEFORE JULY 1, 1987, SIMULTANEOUS WITH THE RECEIPT OF EQUIVALENT ASSISTANCE THROUGH THE LEGISLATION. THIS REVERSAL WILL BENEFIT THE ASSOCIATIONS AND BANKS IN OUR DISTRICT THAT MADE CONTRIBUTIONS. HOWEVER, IT IS VITAL THAT THE ASSISTANCE RECEIVED BY THE FEDERAL LAND BANK BE REPLACED SIMULTANEOUSLY. WITHOUT THE EQUIVALENT ASSISTANCE, THE IMPACT WOULD BE TO TAKE AWAY $80 MILLION IN CAPITAL FROM THE LAND BANK SERVING OUR FOUR STATES.

WE ALSO WANT TO COMMENT ON OTHER PROVISIONS OF H.R. 3030:

1. <u>FINANCIAL ASSISTANCE</u>. H.R. 3030 WOULD AUTHORIZE APPROPRIATION OF SUCH SUMS AS MAY BE NECESSARY. IMPORTANTLY, THIS RECOGNIZES THAT INFUSION OF CAPITAL IS THE MOST DIRECT, HONEST, AND COST-EFFECTIVE

FORM OF ASSISTANCE. HOWEVER, A SEPARATE, SPECIFIC CONGRESSIONAL APPROPRIATION WOULD BE NECESSARY AND SOME OF THOSE DISTRICTS MAY NEED AN INFUSION OF CAPITAL BEFORE YEAR-END 1987. IS THERE TIME IN THE REMAINING CONGRESSIONAL SCHEDULE FOR 1987 TO PASS BOTH LEGISLATION AND APPROPRIATONS?

LEGISLATION WHICH DOES NOT PROVIDE REAL CAPITAL WILL NOT DO THE JOB. WE SUPPORT THE SYSTEM PROPOSAL FOR A FEDERAL LINE OF CREDIT WHICH COULD BE DRAWN ON IMMEDIATELY. WE WANT TO WORK WITH CONGRESS SO AS TO MINIMIZE THE AMOUNT OF ACTUAL ASSISTANCE NECESSARY. WE PLEDGE TO REPAY THIS ASSISTANCE OVER TIME.

2. BORROWER RIGHTS. H.R. 3030 ESTABLISHES SUBSTANTIAL BORROWER RIGHTS, FOR HOMESTEAD PROTECTION, RIGHT OF FIRST REFUSAL, AND RESTRUCTURING OF TROUBLED LOANS. WE BELIEVE IN RIGHTS FOR ALL BORROWERS. THESE MANDATORY REQUIREMENTS IN H.R. 3030 SHOULD NOT COME AT THE EXPENSE OF THE 90 PERCENT OF OUR BORROWERS WHO ARE CURRENT ON THEIR PAYMENTS. WHAT ABOUT THE RIGHTS OF THE 90 PERCENT OF OUR BORROWERS WHO PAY THE BILL?

THE HOMESTEAD AND RIGHT OF FIRST REFUSAL PROVISIONS WILL PROLONG THE PERIOD OF TIME THAT THE LENDER MUST CARRY A PROPERTY AS A NON-EARNING ASSET. AS A RESULT, IT WILL INCREASE CARRYING COSTS TO OTHER MEMBERS. THESE INCREASED COSTS COULD AMOUNT TO MILLIONS OF DOLARS FOR THE FARM CREDIT SYSTEM NATIONALLY.

THESE ADDITIONAL COSTS PLACE A GREATER BURDEN ON OTHER FARMER-RANCHER MEMBERS. WE NEED TO MINIMIZE THE COSTS TO THEM SO THAT THEY WILL HAVE A FAIR OPPORTUNITY TO SUCCEED.

WE AGREE WITH THE CONCEPT OF RESTRUCTURING DEBTS ON A CASE-BY-CASE, LEAST-COST BASIS. OUR CURRENT POLICY IS TO RESTRUCTURE RATHER THAN FORECLOSE A LOAN WHEN IT IS LESS COSTLY TO DO SO.

WE HAVE MADE MUCH PROGRESS IN RECENT MONTHS. LAST DECEMBER 1, OUR DISTRICT SET UP TEAMS OF CREDIT SPECIALISTS TO CONCENTRATE ON THE WORK-OUT OF TROUBLED LOANS. THESE TEAMS HAVE WORKED ON OUR MOST DISTRESSED LOANS, WHICH A YEAR AGO MIGHT HAVE ALL BEEN IN FORECLOSURE. SINCE THEN, THAT GROUP HAS SETTLED MORE THAN 3,000 CASES. IN MORE THAN 1,400 CASES, SOME WAY HAS BEEN FOUND TO KEEP THE FARMER OR RANCHER OPERATING, EITHER THROUGH HIS ABILITY TO BRING THE LOAN CURRENT OR THROUGH REAMORTIZATION OR RESTRUCTURING OF THE LOAN. AND IN MORE THAN 2,400 CASES — OR OVER 75 PERCENT — WE HAVE REACHED AGREEMENT WITH THE BORROWER OUTSIDE OF COURT AND MANAGED TO AVOID FORECLOSURE.

CONGRESSMAN, I KNOW YOU HAVE HEARD OF MANY CASES WHERE IT APPEARS THAT THE BORROWER WAS MISTREATED. IN MANY OF THESE CASES, THERE IS ANOTHER SIDE TO THE STORY.

BUT I MUST ALSO SAY THAT WE HAVE MADE OUR SHARE OF MISTAKES. IN RECENT MONTHS OUR POLICIES HAVE CHANGED. TODAY WE HAVE MORE TOOLS FOR HELPING TROUBLED BORROWERS THAN WE DID A YEAR AGO.

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WE HOPE THE CONGRESS WILL RECOGNIZE THIS PROGRESS AND PLACE REASONABLE LIMITS ON THE RIGHTS OF FIRST REFUSAL, FOR EXAMPLE. OTHERWISE, THE COSTS OF CARRYING ACQUIRED PROPERTY WILL SIGNIFICANTLY INCREASE.

WE BELIEVE BORROWER RIGHTS MUST BE BALANCED FOR ALL FARMER-RANCHER BORROWERS.

3. SYSTEM STRUCTURE. H.R. 3030 INCLUDES THE AMENDMENT AUTHORED BY CONGRESSMAN STENHOLM WHICH WOULD SIGNIFICANTLY CHANGE THE SYSTEM'S OPERATING STRUCTURE. WE AGREE WITH THE COMMITTEE THAT THERE IS A NEED TO STREAMLINE AND REDUCE THE COSTS AND OVERHEAD IN OUR DELIVERY OF CREDIT TO AGRICULTURE. WE BELIEVE, HOWEVER, THAT THE STENHOLM AMENDMENT CAN BE REVISED IN WAYS THAT WILL MINIMIZE THE DISTRUPTION BUT ACCOMPLISH THE OBJECTIVE.

YOU SHOULD ALSO KNOW THAT OUR DISTRICT HAS ALREADY MADE MUCH PROGRESS ON ITS OWN TO REDUCE COSTS. DURING ONE RECENT PERIOD OF TIME, THE EMPLOYEE WORK FORCE AT THE DISTRICT BANK LEVEL WAS REDUCED BY 33 PERCENT AND THE SENIOR OFFICERS IN THE BANK BY 60 PERCENT. EMPLOYEE BENEFITS HAVE BEEN CUT AND OUR HEADQUARTERS BUILDING IN WICHITA HAS BEEN SOLD THROUGH A SALE/LEASEBACK.

WE CONSIDER THE STENHOLM AMENDMENT TO H.R. 3030 AS A HEALTHY CHALLENGE TO THE SYSTEM TO IMPROVE ITS OPERATING SYSTEM STRUCTURE. OUR DISTRICT MADE AN EXTRA EFFORT TO SEEK GRASSROOTS INPUT ON THIS

ISSUE. WE SENT A COPY OF THE STENHOLM AMENDMENT TO EVERY FARMER-RANCHER DIRECTOR OF EVERY ASSOCIATION IN OUR DISTRICT. WE ASKED LOCAL BOARDS TO CONSIDER THESE ISSUES AND INVITED THE CHAIRMAN AND PRESIDENT OF EVERY LOCAL ASSOCIATION TO A MEETING. AT THAT TIME, WE ASKED FOR THEIR INPUT ON THE TYPE OF SYSTEM STRUCTURE WHICH WOULD SERVE THE BORROWER BEST.

THE RESPONSE WAS LOUD AND CLEAR: SOMETHING MUST BE DONE TO ENHANCE LOCAL CONTROL AND REDUCE COSTS. OUR STOCKHOLDERS ADVISORY COMMITTEE, A REPRESENTATIVE GROUP OF ELECTED FARMER-STOCKHOLDERS, DISCUSSED THE PRACTICAL ALTERNATIVES FOR MEETING THIS OBJECTIVE.

WE TOOK THESE IDEAS TO A NATIONAL MEETING OF DISTRICT FARMER-DIRECTORS. A COMPLETE SUMMARY OF THE SYSTEM RESPONSE ON THE STRUCTURE ISSUE IS BEING PREPARED AND WILL BE PRESENTED TO YOU BEFORE CONGRESS RECONVENES. WE APPRECIATE YOUR CONSIDERATION OF THESE VIEWS AS H.R. 3030 IS CONSIDERED BY THE FULL HOUSE.

AGAIN, WE APPRECIATE THE EFFORTS OF THE HOUSE AGRICULTURE COMMITTEE AND PLEDGE TO WORK WITH YOU TO FIND SOLUTIONS.

FINALLY, THERE ARE TWO ACTIONS WHICH WE BELIEVE ARE IMPORTANT TO THE FUTURE OF CREDIT FOR THE LIVESTOCK AND OVERALL AGRICULTURE SECTOR:

1. PASS A FARM CREDIT ASSISTANCE PACKAGE BEFORE CONGRESS ADJOURNS IN 1987. THIS LEGISLATION SHOULD PROVIDE A GUARANTEE OF STOCK, A FEDERAL LINE OF CREDIT, AND ADEQUATE FLEXIBILITY TO ALLOW THE FARM

CREDIT SYSTEM TO REPAY GOVERNMENT ASSISTANCE AND SERVE ITS FARMER-MEMBERS. WHILE THERE MAY BE DIFFERENCES ON SPECIFIC PARTS OF THE BILL, WE BELIEVE IT IS IMPORTANT THAT THE LEGISLATION BE PASSED THIS YEAR.

2. IMPROVED ALLOCATION OF FARMERS HOME ADMINISTRATION LOAN GUARANTEES. LET ME EXPLAIN.

THE FARM CREDIT SYSTEM NOW HAS A TROUBLED LOAN RESTRUCTURING POLICY UNDER WHICH WE WILL RESTRUCTURE A LOAN RATHER THAN FORECLOSE WHEN IT IS LESS COSTLY TO DO SO. WE BELIEVE WE HAVE MADE GREAT PROGRESS WITH THIS POLICY, AS NOTED EARLIER.

ALL TOO OFTEN, A DISTRESSED BORROWER CAN SIMPLY NOT BE RESTRUCTURED INTO VIABILITY WITHOUT AN INTEREST BUY-DOWN SUCH AS THE ONE OFFERED BY THE FARMERS HOME ADMINISTRATION. OUR OFFICES ON THE WESTERN SLOPE OF COLORADO, FOR EXAMPLE, HAVE BEEN ABLE TO RESTRUCTURE SEVERAL LOANS THROUGH THE USE OF THE FMHA INTEREST BUY-DOWN AND GUARANTEES. IN THIS PROGRAM, THE LENDER MUST MAKE A CONCESSION IN THE FORM OF A 2 PERCENT INTEREST RATE REDUCTION BUT IT IS MATCHED BY AN ADDITIONAL 2 PERCENT FROM THE FARMERS HOME ADMINISTRATION. THIS ASSISTANCE IS OFTEN THE DIFFERENCE BETWEEN WHETHER A LOAN CAN BE RESTRUCTURED OR NOT.

OUR FARM CREDIT OFFICES IN WESTERN COLORADO HAVE ALREADY BOOKED OR APPROVED NEARLY $1 MILLION WORTH OF RESTRUCTURED FMHA GUARANTEED LOANS SO FAR IN 1987 AND THEY EXPECT MANY MORE. UNFORTUNATELY, THE

ENTIRE STATE OF COLORADO WAS ALLOCATED ONLY $4.3 MILLION FOR THIS PROGRAM IN 1987 BY THE FARMERS HOME ADMINISTRATION, AND THE FUNDS ARE CURRENTLY DEPLETED. OUR WESTERN SLOPE OFFICES INDICATE THAT THEY MAY USE $4 MILLION NEXT YEAR BY THEMSELVES!

WE BELIEVE THE FMHA BUY-DOWN/GUARANTEE PROGRAM IS A GOOD ONE, AND WE COMMEND THE STATE FMHA STAFF IN DENVER. WITH INCREASED FUNDING IN COLORADO, THIS PROGRAM WILL HELP ALL LENDERS FIND A WAY TO RESTRUCTURE MORE LOANS.

IN SUMMARY, WE BELIEVE A STRONG FARM CREDIT SYSTEM IS VITAL TO A STRONG LIVE-STOCK ECONOMY. WE COMMEND THE HOUSE AGRICULTURE COMMITTEE FOR ITS EFFORTS ON H.R. 3030, AND FOR THE GUARANTEE OF BORROWER STOCK. WE WANT TO WORK WITH YOU ON REFINING OTHER ASPECTS OF H.R. 3030 DEALING WITH FINANCIAL ASSISTANCE AND SYSTEM STRUCTURE. THANK YOU AGAIN FOR THE OPPORTUNITY TO MEET WITH YOU.

September 3, 1987
Testimony for the House Sub Committee on Livestock, Poultry, etc.
by Phyllis Snyder, 17512 Co. Rd. 20, Cortez, Colo. 81321

I am Phyllis Snyder. My husband and our sons own and operate a 600 acre farm north of Cortez, Colorado. We have irrigation and raise alfalfa hay, corn for silage, oats, barley, and sorghum. We have a yearling steer operation, cow-calf herd, and operate a feedlot during the winter months.

I am speaking in opposition to allowing haying and grazing on set aside acres.

First of all, government farm programs are voluntary. If a producer wants to produce on 100% of his acres, he should not sign up for an acreage reduction program designed to take acres out of production.

It seems to be a contradictory policy to pay someone to not harvest on some of their acres and then in the same policy allow them to harvest on these same acres.

I know there is a difference between "program" crops and "non-program" crops but why do we try to eliminate over-production of program crops and yet encourage over-production of non-program crops? Agriculture is so dependent on agriculture that when a farm program is implemented to bail out one commodity it causes serious over-production and poor markets for another commodity. That is why farm program policies should be very carefully looked at to see what negative results will spread over to other commodities.

How can you measure whether more ag producers will go under

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or more producers be saved for a few more years with this policy and what will be the expense to the government?
The second major consideration should be the tremendous budget problems facing our government. It seems only logical to me that one good place to save money would be not having a program that obviously promotes farming for the government subsidy. To me, it is a form of cheating to accept payment for not doing something and then turn around and do it anyway. Everyone goes around supporting it because it isn't fair to those producers who aren't doing it! Some of the hay producers are not even eligible to participate to begin with because they don't have a "program" crop to get paid not to produce. What about fairness to them? How many billions of dollars in legitimate market income will be lost to hay producers with an over-supplied lower market valued hay crop?
Why not oppose this policy of haying and grazing set aside acres because it is wrong? The main argument I have heard is everyone else is doing it. I have taught my kids that two wrongs don't make it right. It's time someone started working for what is right and opposed this policy because it's obviously contradictory to produce on land you are paid not to produce on and it's pretty expensive for the government.
I am sure you will be lobbied very heavily in support of this policy. Everyone wants to make more money and they will use lots of arguments to show how beneficial this policy will be to them. It definitely helps cattle feeders to have lower feed bills and it helps ag producers get more government money but is it right? Ask some of the millions of Americans who pay higher taxes each

year if they think this is a sound agriculture policy to help stabilize the agriculture economy.

The hay producers in our area who are supporting this policy are mainly producers who think all of agriculture should be subsidized and controlled by the government or are producers who have switched to hay production in recent years because of low pinto bean yields and markets or because they can get a government subsidy to not produce wheat. They are making more from their hay crops than they could from wheat or beans and are still wanting the government handout.

Part of our farm is under the farm program. We have set aside acres that we do not hay or graze. These set aside acres do not cause a hardship in our farm income. The government subsidy or deficiency payment does not make up the major source of income. What does hurt our farm income is the production of more hay than our market can absorb and the lower prices we are seeing because of those producers selling their hay at lower than production costs because they have the government subsidy to make up the difference in their costs and their selling price.

I believe the balance of supply and demand would work for the good of all producers if allowed to operate without government farm programs upsetting the balances.

Thank you very much for allowing me the opportunity to address this very important issue. I sincerely hope you will think about the issue from my standpoint as a hay producer. If I can be of more assistance in your decision making, please contact me.

Phyllis K Dryden
17512 Co. Rd. 20
Cortez, Colo. 81321

September 3, 1987

Testimony submitted to the House Agriculture Sub-Committee

From San Juan Basin Farm Bureau
17512 Co. Rd. 20
Cortez, Colorado 81321

RE: Opposition of Haying and Grazing Set Aside Acres

San Juan Basin Farm Bureau passed a county policy resolution opposing the haying and grazing of set aside acres. The policy succeeded in becoming policy for Colorado Farm Bureau and for the American Farm Bureau Federation.

Our reasons for opposing haying and grazing of set aside acres are:

1. Producers who sign up for a program to take land out of production should take land out of production, not just change commodities. The program is voluntary. If a producer doesn't want to set aside some acres, he shouldn't sign up.

2. It is unfair to non-participating producers to pay tax money to fund this subsidy which is competing against them in the market. Many producers are not eligible to participate in the set aside program and receive subsidies. It costs non-program producers twice -once in taxes and once again in lower markets. A porducer who receives a subsidy payment before he even produces the crop can sell his product at a lower price because he has that government support cushion to help pay the expenses of his production.

3. The U.S. Government has tremendous budget problems. Farm Bureau has continually supported balancing the budget by limiting government spending. This policy of paying for set aside non-producing acres and then allowing production on these same acres is a prime example of unresponsible government spending.

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4. Supply and demand, if allowed to work without government interference, could make all commodity markets stable and allow all commodity producers to make a living off their land. Government programs have created so many expensive problems for ag producers and the government by encouraging overproduction, creating unstable markets, and false market values. While bailing out one ag commodity, another ag commodity is damamaged. Agriculture producers are dependent on other agriculture producers.

San Juan Basin Farm Bureau has 588 member families in Dolores and Montezuma Counties in Southwestern Colorado. Locally we face more production of hay than our market can absorb causing lower prices and larger stocks of carryover hay. We do not have a transportation system to move our products great distances except at the high cost of trucking. This keeps our market limited both in availability of markets and in the price we can receive for our crops.

We ask you to take a close look at this farm program provisiion and to oppose it.

Thank you for your consideration.

San Juan Basin Farm Bureau

Phyllis Snyder, Secretary
James Porter, President

Phyllis K. Snyder

TESTIMONY BEFORE THE SUBCOMMITTEE
ON LIVESTOCK, DAIRY AND POULTRY

My name is Ed Wiedeman. I am a dairy farmer from Greeley, Colorado milking 420 holsteins three times a day. I am a member of Western Dairymen Cooperative.

I have studied milk markets for many years and as a result I have several observations I would like to share with you this morning.

If you will follow along with me, I have prepared several exhibits that illustrate the need for a national supply management program within the U.S. dairy industry.

EXHIBIT #1

Exhibit #1 illustrates national production and commercial usage of product for the 1983 through first quarter 1987 period. During this period of time, total milk production was consistently highest during the second quarter of each year. Meanwhile, commercial usage was highest in these same years during the third quarter.

EXHIBIT #2

Exhibit #2 illustrates daily production and commercial usage for the first and second halves of the years 1983 through 1986. As you can see, production during the first six months of the year historically is greater than production during the second half. However, during calendar 1985, the Milk Diversion Program leveled this seasonal imbalance. Commercial usage, historically has been greater in the second half, exactly opposite what our production trends have been. This has caused the seasonal imbalance that can be observed in column five when we compare total production to total commercial usage for the first half versus the second half of each year.

During 1984, dairy farmers participated in the Milk Diversion Program which resulted in closely aligning our production with our commercial sales. The same results occurred in the second half of 1986 during the Herd Buyout Program. This proves that a supply-demand imbalance can be overcome if dairy farmers are offered an alternative supply management program.

EXHIBIT #3

Exhibit #3 shows that the percent of cows leaving herds on a yearly basis stays relatively stable unless some type of incentive is made available to change the population. 1984 reflects the increase in cow culling brought about by the Milk Diversion Program. The Herd Buyout Program is not reflected in the 1986 data because of the requirement of total herd disposal.

EXHIBIT #4

The recent milk diversion program in 1984 had some beneficial effects on herds with production records processed at the regional DHI Computing Center located at Provo, Utah. Exhibit #4 verifies that the number of herds and number of cows, as well as the average size of herds were increasing up until 1984. There was a significant decrease in all catagories in 1984. Following the Milk Diversion Program, the herds still in business built back their cow numbers, and cows per herd had increased to greater numbers than in 1983 (146.82 cows/herd). Over the period of October 1981 through September 1986, there were 17% less herds and only 15% less cows in the system. This illustrates that although there were fewer dairymen, there were more cows per herd.

EXHIBIT #5

Exhibit #5 is a tribute to the ability of dairymen in this region to improve their production efficiency. The average herd was able to increase milk production per milking cow per day by 15.1%, with a range of 6.1% for Hawaii dairymen up to 29% for Colorado dairymen. This shows that if the incentive is available, dairymen can respond even without new miracle products that are currently being researched and made available to them.

In some states, the increased percentage of milk production per cow is much higher than others. This can be attributed to more herds going to 3 times a day milking particularly during the most recent years when assessments were levied by the Secretary.

EXHIBIT #6

Exhibit #6 shows that nine states added almost identical number of cows to their herds in the winter and spring months. In all but one state (Arizona) milk production was greater in the spring months as compared to winter months. A simple average of the data shows that there was an advantage of 4.1 pounds of milk per cow per day for cows milked in the spring months or the 611,551 cows tested produced 2,507,359 pounds of surplus milk per day. If those cows represent 35% of the total population in these states, then we can assume that cows in these selected 9 states are adding about 4.2 million pounds of milk per day to the surplus milk problem during the spring months.

This data points out two needs in milk marketing.

(1) An incentive program is needed to reward dairymen who produce milk when it is needed in the fall and winter months when supply and demand are closely matched and when costs of production are at the highest level per hundred pounds of milk produced as shown on Exhibits 6(a)(b)&(c).

(2) Some type of national quota or base system is needed to regulate the upper limits of production to guarantee market and government entitlement program needs.

EXHIBIT #7

Exhibits 7(a) and (b) illustrate two different producers and their production habits. Producer A maintains level production throughout the year by producing milk when the market is in need during the fall and winter months, and cuts back during the summer months to avoid an increase in output when the market is in a surplus situation.

Producer B produces milk just the opposite, milking more cows and producing more milk in the summer months when the market is saturated. In the fall and winter months, when the market is in need of milk for increased sales, he milks fewer cows and produces 23% less milk.

Both of these producers are marketing their milk through a co-op with a base program. Producer "A" maintains his production at his base level. Producer "B" transfers base in and out of his account several times during the year.

Given these conditions, I am advocating a national supply management program using a quota established during the July through December months. The program's general provisions are as follows:

SUPPLY MANAGEMENT PLAN

1. Producers quota would be based on the third and fourth quarters production history. This is a time when historically production and commercial use are most closely aligned.

   An example follows:

	Production	History
	Jan. - June '88	July - Dec. '86
	July - Dec. '88	July - Dec. '87
EXAMPLE	Jan. - June '89	July - Dec. '87
	July - Dec. '89	July - Dec. '88
	Jan. - June '90	July - Dec. '88

2. Producers would submit production history annually to ASCS for registration of a production quota.
3. The Secretary, USDA, and NMPF would make an annual estimate of national production versus commercial usage and announce semi-annually a percent of quota needed to keep supply and demand in a reasonable balance.

4. Producers pay price on production covered with quota will be computed the same as it is currently, however, the over-quota production will be discounted. Whenever a dairyman produces milk over his assigned quota, he will receive a world price for that portion of his production. The dollars resulting from the difference between the world price and the current support price will be deducted from his milk check and sent to CCC to offset administrative program costs and purchase of surplus product.
5. New producers would be allowed entrance into the market only during the July-December period each year. New producers would be paid the local blend price based on the percent Class I utilization in the market. Production over this amount would be paid at the world price. During this July-December period, the dairyman will be earning his quota for the coming year. The new produce must ship a minimum of one year before a quota would be assigned to him. By basing a new producer's quota on the Class I utilization in a given market, this will be an incentive for new production to enter markets that are in need of milk.
6. Production quotas would be non-transferable except on a complete take-over of the facility and herd where continuity of the operation was maintained.

<u>SUMMARY</u>

The plan that I have proposed to you is designed to treat all producers more equitably. We must set aside our regional differences when we are looking for solutions to our supply-demand imbalances. We are one big bucket of milk, and we must all do our share to overcome our surpluses.

The plans that we have had in the past are not long enough and should be mandatory to every dairyman. It seems that those of us who try to level our production in the interest of the industry end up getting penalized twice. One, by milking more cows in the tougher fall and winter months when production costs are high, and two, by paying the assessments and experiencing price support reductions when our production remains out of line with demand.

I believe that this plan is fair for all dairymen in the sense that it pays for milk what it is worth at the time it is being produced. If a dairyman wants to produce more milk in the summer months when the market is in surplus, he will be receiving what that milk market will support.

Dairymen across the country have had to increase plant capacities and purchase more milk tankers each year due to the tremendous flood of milk that comes on each year during the summer months. This creates a large investment for the dairyman for just a short period of time, and in most cases no return is gained on the investment in the fall and winter months when production falls to seasonal norms. This is another additional expense that the dairyman who maintains level production throughout the year must bear.

This concludes my remarks to you this morning. Thank you for the opportunity that you have given the dairy industry and myself to express our thoughts. I am now available to answer any questions you may have.

(The exhibits follow:)

UNITED STATES MILK PRODUCTION, COMMERCIAL USE -- 1983 to 1987 EXHIBIT #1

Year	Month	U.S. Milk Production: (Billion #)	Year	Quarter	U.S. Milk Production: (- Billion Pounds -)	U.S. Commercial Use: (- Billion Pounds -)
1983	Jan.	11.5				
1983	Feb.	10.7				
1983	Mar.	12.0	1983	I	34.2	28.0
1983	Apr.	12.0				
1983	May	12.6				
1983	Jun.	12.3	1983	II	$\boxed{36.9}$	30.9
1983	Jul.	12.1				
1983	Aug.	11.7				
1983	Sep.	11.3	1983	III	35.0	$\boxed{32.0}$
1983	Oct.	11.4				
1983	Nov.	11.0				
1983	Dec.	11.4	1983	IV	33.8	31.6
1984	Jan.	11.4				
1984	Feb.	10.9				
1984	Mar.	11.7	1984	I	34.0	29.2
1984	Apr.	11.7				
1984	May	12.2				
1984	Jun.	11.7	1984	II	$\boxed{35.6}$	32.4
1984	Jul.	11.5				
1984	Aug.	11.2				
1984	Sep.	10.8	1984	III	33.5	$\boxed{33.1}$
1984	Oct.	10.9				
1984	Nov.	10.5				
1984	Dec.	11.0	1984	IV	32.4	32.2
1985	Jan.	11.3				
1985	Feb.	10.5				
1985	Mar.	11.9	1985	I	33.7	29.4
1985	Apr.	12.1				
1985	May	12.9				
1985	Jun.	12.5	1985	II	$\boxed{37.5}$	32.6
1985	Jul.	12.6				
1985	Aug.	12.4				
1985	Sep.	11.9	1985	III	36.8	$\boxed{34.6}$
1985	Oct.	12.1				
1985	Nov.	11.6				
1985	Dec.	12.0	1985	IV	35.6	34.0
1986	Jan.	12.2				
1986	Feb.	11.3				
1986	Mar.	12.7	1986	I	36.2	30.9
1986	Apr.	12.6				
1986	May	13.1				
1986	Jun.	12.7	1986	II	$\boxed{38.4}$	33.7
1986	Jul.	12.3				
1986	Aug.	11.9				
1986	Sep.	11.4	1986	III	35.6	$\boxed{35.0}$
1986	Oct.	11.5				
1986	Nov.	11.0				
1986	Dec.	11.4	1986	IV	33.9	34.7
1987	Jan.	11.7				
1987	Feb.	10.9				
1987	Mar.	12.2	1987	I	34.9	

EXHIBIT #2

		Daily Production	1st Half Production vs. 2nd Half	Daily Commercial Use	1st Half Commercial Use vs. 2nd Half	% Production vs. Commercial Use
1983	1st Half	392.8	+5%	325.4	-6%	121%
	2nd Half	373.9		345.6		108%
1984	1st Half	382.4	+7%	338.5	-5%	113%
	2nd Half	358.1		354.9		$\boxed{101\%}$
1985	1st Half	393.4	-0%	342.5	-8%	115%
	2nd Half	393.5		372.8		106%
1986	1st Half	412.2	+9%	356.9	-6%	115%
	2nd Half	377.7		378.8		$\boxed{100\%}$

EXHIBIT 3

DHI-PROVO COMPUTER WORKSHOP

ROLLING HERD AVERAGE - PERCENT COWS LEAVING THE HERD

OFFICIAL HERDS PROCESSED FOR SEPTEMBER IN EACH OF THE LAST TEN YEARS

STATE/COUNTRY	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
31 OHIO	33	38	33	31	31	31	32	37	33	33
31 MARYLAND	32	33	33	31	32	32	32	35	33	37
66 MEXICO	31	29	28	29	31	31	30	35	30	43
74 TEXAS										19
75 COLOMBIA					21	24	26	28	31	28
81 MONTANA	33	38	38	35	30	31	32	38	32	34
82 IDAHO	36	36	34	34	30	32	34	41	33	34
83 WYOMING	36	37	44	41	29	33	34	51	43	33
84 COLORADO	36	34	35	37	36	33	39	45	36	34
85 NEW MEXICO	33	39	35	35	34	31	39	43	37	38
86 ARIZONA	33	32	34	34	30	32	34	39	34	33
87 UTAH	35	36	36	34	33	35	35	40	35	35
88 NEVADA	29	35	32	31	34	38	36	42	35	30
91 WASHINGTON			32	31	31	30	31	34	31	34
92 OREGON					45	38	39	56	36	49
93 CALIFORNIA	30	30	28	29	29	30	30	34	28	30
95 HAWAII ♦	29	29	29	29	31	29	35	40	35	28
96 ALASKA						25	52	36	33	34

DHI-PROVO COMPUTER WORKSHOP

EXHIBIT #4

AVERAGE HERD SIZE

OFFICIAL HERDS PROCESSED FOR SEPTEMBER IN EACH OF THE LAST TEN YEARS

STATE	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
31 OHIO	57	56	57	59	60	61	62	60	62	63
* NUMBER HERDS	1469	1475	1543	1627	1625	1635	1662	1591	1525	1506
51 MARYLAND	83	82	79	82	80	85	85	85	83	83
*	550	569	582	592	512	609	629	568	565	550
66 MEXICO	324	298	318	329	359	310	300	319	291	303
*	79	107	127	144	116	123	120	110	9	9
74 TEXAS										384
*										2
75 COLOMBIA					75	76	78	71	73	73
*					47	121	175	246	198	209
81 MONTANA	78	74	70	80	84	84	83	88	89	92
*	70	69	76	95	107	108	104	97	95	84
82 IDAHO	94	130	99	701	98	100	100	95	105	104
*	92	100	171	208	481	475	470	420	388	331
83 WYOMING	85	82	76	75	84	83	97	97	62	42
*	32	39	18	31	25	22	22	15	8	4
84 COLORADO	110	112	106	118	127	130	139	129	150	155
*	190	210	206	195	236	223	217	191	172	151
85 NEW MEXICO	460	464	540	465	453	417	455	492	604	539
*	43	37	42	51	54	59	50	40	35	30
86 ARIZONA	345	377	401	396	404	404	485	431	463	506
*	112	108	92	97	106	104	101	90	76	78
87 UTAH	92	95	99	104	111	114	111	109	116	119
*	209	281	292	295	357	364	357	308	305	251
88 NEVADA	156	192	157	244	284	332	307	296	275	225
*	36	38	25	42	38	24	31	30	27	26
91 WASHINGTON			125	131	137	139	143	141	145	149
*			621	625	621	616	590	576	562	489
92 OREGON					93	119	121	91	97	111
*					12	8	10	8	14	13
93 CALIFORNIA	287	287	289	296	307	308	317	317	341	363
*	758	718	755	815	824	827	824	796	757	702
95 HAWAII	485	502	563	555	558	623	580	504	514	584
*	18	17	16	14	13	12	13	15	14	14
96 ALASKA					60	69	61	59	128	154
*					1	1	1	1	2	3

HERDS	5175	5331	5376	5102	4752	4450	-17%
COWS	736,007	571,134	769,876	713,643	681,819	653,362	
COWS PER HERD	142.22	140.90	143.21	139.88	143.48	146.82	-15

EXHIBIT 5

DHI-PROVO COMPUTER WORKSHOP

AVERAGE POUNDS OF MILK PER DAY FOR MILKING COWS ONLY

OFFICIAL HERDS PROCESSED FOR SEPTEMBER IN EACH OF THE LAST TEN YEARS

STATE/COUNTRY	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	Increase 77-'86
31 OHIO	45.2	45.6	45.4	44.9	46.0	47.2	47.3	48.0	50.0	50.4	11.5
51 MARYLAND	45.0	45.3	45.9	44.2	44.9	46.7	46.5	47.1	48.9	51.0	13.3
66 MEXICO	37.8	33.4	38.7	38.1	40.3	42.0	39.6	40.9	42.5	42.9	13.5
74 TEXAS										52.8	—
75 COLOMBIA					32.6	32.0	32.3	33.7	31.0	33.2	—
81 MONTANA	42.3	42.8	45.9	44.6	44.9	45.3	46.3	49.1	50.8	50.5	19.4
82 IDAHO	45.6	48.2	46.4	45.6	47.7	47.9	48.9	48.5	51.2	51.8	11.1
83 WYOMING	42.2	42.6	39.5	44.7	45.2	43.5	44.5	47.4	43.2	42.9	—
84 COLORADO	46.5	48.6	45.8	47.3	47.2	48.4	50.3	52.2	57.2	60.0	29.0
85 NEW MEXICO	50.3	52.6	50.0	51.5	51.7	54.3	56.9	58.1	60.1	63.7	26.6
86 ARIZONA	48.8	47.5	46.7	49.2	49.7	47.7	43.7	46.7	53.5	51.4	5.3
87 UTAH	48.1	49.3	47.2	48.4	49.6	51.3	50.7	51.6	55.3	56.5	17.5
88 NEVADA	46.5	49.9	48.7	48.8	47.8	48.4	49.3	50.9	56.0	54.5	17.2
91 WASHINGTON			48.5	49.2	51.1	53.7	54.7	56.0	59.0	59.4	22.6
92 OREGON					43.8	47.3	48.2	49.2	48.8	46.7	6.6
93 CALIFORNIA	53.5	51.8	51.7	53.8	54.2	54.6	53.9	55.6	58.1	59.0	10.3
95 HAWAII *	42.6	43.6	42.6	43.3	41.3	44.1	47.6	44.6	47.3	45.2	6.1
96 ALASKA					43.6	50.8	44.2	48.7	48.1	50.8	16.5

EXHIBIT #6

SELECT 1986 DHI DATA* TO COMPARE WINTER AND SPRING COW REMOVAL, ADDITIONS AND PRODUCTION DIFFERENCES

State	New Cows Entering Herd	New Cows Entering Herd	Pounds of Milk/ Cow/Day	Pounds of Milk/ Cow/Day	Total Cows Tested 9/30/86
	Winter Months OCT-JAN '85/86	Spring Months MAY-AUG '86	Winter Months OCT-JAN '85/86	Spring Months MAY-AUG '86	
Ohio	3,183	2,833	50.6	53.4	94,878
Maryland	1,572	1,208	50.2	52.2	45,650
Idaho	850	1,290	49.5	55.1	34,424
Colorado	1,000	733	55.7	62.4	23,405
New Mexico	490	750	58.9	67.2	16,170
Arizona	1,043	1,353	57.2	56.9	39,468
Utah	835	985	54.4	59.1	29,869
Washington	2,050	2,298	58.4	62.4	72,861
California	7,900	7,525	57.8	60.7	254,826
Total Entering	18,923	Total 18,975	Average 54.7	Average 58.8	611,551
				Diff. + 4.1	

Increased milk spring months = 2,507,359 pounds

*Data from DHI Computing Center, Provo, Utah, for 12 months ending 9/30/86.

EXHIBIT 6(a)

COST OF PRODUCTION FOR 1979

MONTH	MILK PROD/ MILK COW	3.5 BASE PR.	MILK INCOME	* ACTUAL	EXPENSES
JAN	49	12.14	12.47	11.00	+ 1.47
FEB	46	12.27	12.49	10.55	+ 1.94
MAR	52	12.25	12.31	10.27	+ 2.04
APR	54	12.21	12.13	9.44	+ 2.69
MAY	53	12.21	12.04	9.70	+ 2.34
JUNE	60	12.22	11.80	9.97	+ 1.83
JULY	55	12.28	12.01	9.76	+ 2.25
AUG	55	12.60	12.32	10.10	+ 2.22
SEP	47	12.75	12.73	11.63	+ 1.10
OCT	47	12.89	13.01	12.04	+ .97
NOV	45	13.13	13.46	12.03	+ 1.43
DEC	48	12.87	13.34	13.50	- .16
AVERAGE	50.9	12.48	12.51	10.83	+ 1.68

1. Milk Income increased steadily throughout the year.

2. Actual Expenses also increased but at a higher rate.

* Actual Expenses do not include depreciation or interest on investment.

EXHIBIT 6(b)

COST OF PRODUCTION FOR 1980

MONTH	MILK PROD/ MILK COW	3.5 BASE PR.	MILK INCOME	ACTUAL EXPENSES	
JAN	47	13.07	13.56	14.45	- .89
FEB	54	13.01	13.29	13.07	+ .22
MAR	50	13.07	13.31	13.29	+ .02
APR	49	13.07	13.31	12.71	+ .60
MAY	48	13.19	13.25	10.97	+ 2.28
JUNE	55	13.19	13.21	11.00	+ 2.21
JULY	52	13.22	13.13	11.36	+ 1.77
AUG	58	13.34	13.19	9.59	+ 3.60
SEPT	51	13.56	13.80	11.28	+ 2.52
OCT	51	13.90	14.18	12.15	+ 2.03
NOV	47	14.09	14.62	13.54	+ 1.08
DEC	51	14.35	14.86	12.13	+ 2.73
AVERAGE	51.1	13.42	13.64	12.13	1.51
1979 AVE	50.9	12.48	12.51	10.83	1.68
	+ .2	+ .94	+1.13	+1.30	- .17

1. Notice the continued influence of the bad winter and low income over expenses through May.
2. Milk Income continued to increase coming up $1.13 above 1979 but Base price was up only $.94, which indicates fat test improved and/or more herds were qualifying for bonus programs
3. Actual Expenses increased by $1.30 over 1979 leaving $.17 less net income in 1980.
4. Note effects of open winter in 1980 and early 1981.

EXHIBIT 6(c)

COST OF PRODUCTION FOR 1981

MONTH	MILK PROD/ MILK COW	3.5 BASE PR.	MILK INCOME	ACTUAL	EXPENSES
JAN	49	14.40	14.80	13.06	+ 1.74
FEB	46	14.45	14.99	13.01	+ 1.98
MAR	50	14.40	14.64	13.24	+ 1.40
APR	51	14.37	14.54	13.01	+ 1.53
MAY	52	14.25	14.38	12.66	+ 1.72
JUNE	52	14.20	14.15	12.50	+ 1.65
JULY	56	14.20	13.96	11.80	+ 2.16
AUG	53	14.11	14.08	12.42	+ 1.66
SEPT	49	14.10	14.13	12.44	+ 1.69
OCT	49	14.25	14.54	12.01	+ 2.33
NOV	48	14.20	14.72	12.49	+ 2.23
AVERAGE	50.5	14.27	14.25	12.60	+ 1.84
1980 AVE	51.1	13.42	13.64	12.13	1.51
	- .6	+ .85	+ .81	+ .47	+ .33

1. Price of base 3.5% milk actually has decreased during spring and summer months and is lower at the end of the year than in January. Average base price was $.85 above 1980.
2. Milk Income shows the same trend.
3. Cost of production actually declined due to mild winter and softening of feed costs.
4. Return for 11 months of 1981 was up over $.33 from 1980.

EXHIBIT 7(a)

Producer (A)

	New cow entering		cows milking	lbs milk per cow per day		lbs milk per day		
Sept 80	15		217	47.3		10,253		10,400#
Oct 80	10		227	46.3		10,540		
Nov 80	9		238	46.9		11,162		
Dec 80	8	231	229	47.6	47.4	10,900	10,960	
Jan 81	3		230	48.3		11,240		
Feb 81	2		231	46.9		10,840		
March 81	3		225	48.1		10,822		
April 81	2		226	49.7		11,232		
May 81	1		213	50.5		10,765		
June 81	0	199	203	52.0	52.7	10,560	10,463	
July 81	6		185	55.0		10,190		
Aug 81	13		194	53.3		10,340		

Producer "A" milked 16% or 32 more cows in the fall and winter months than he did during the summer months.

EXHIBIT 7(b)

Producer (B)

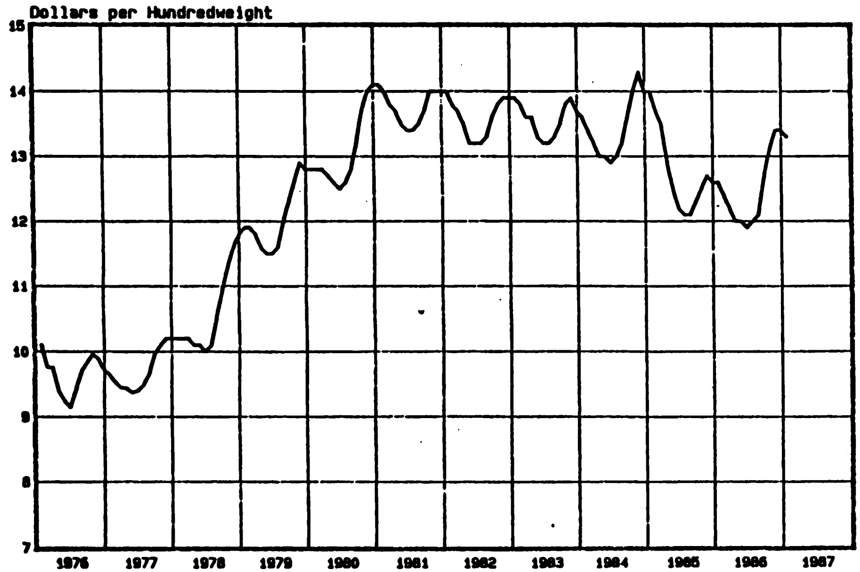
	New cow entering		cows milking		lbs milk per cow per day			lbs milk per day	
Sept 80	2		266		48.2			12,824	Sold down to 13,000 base
Oct 80	12		272		50.2			13,696	
Nov 80	1		264	48.7	47.2		13,025	12,578	
Dec 80	4	269	267		48.1			12,880	
Jan 81	8		271		49.3	more milk		12,880	bought up to 14,000# base
Feb 81	4		269		50.2	in summer	123%	13,517	
March 81	14		278		49.8	3108 lb		12,854	bought up to 16,000# base
April 81	11		274		51.3	per day		14,090	
May 81	21		295		55.1			16,265	
June 81	10		291	55.0	54.9		16,133	15,989	
July 81	6	293	294		56.1			16,500	
Aug 81	5		291		54.2			15,780	Sold down to 15,000 base

Producer "B" milked 9% or 24 more cows in the summer months than he did during the fall and winter months.

(SUPPLEMENTAL INFORMATION)

MILK

AVERAGE PRICE RECEIVED BY FARMERS, UNITED STATES, 1975-1986

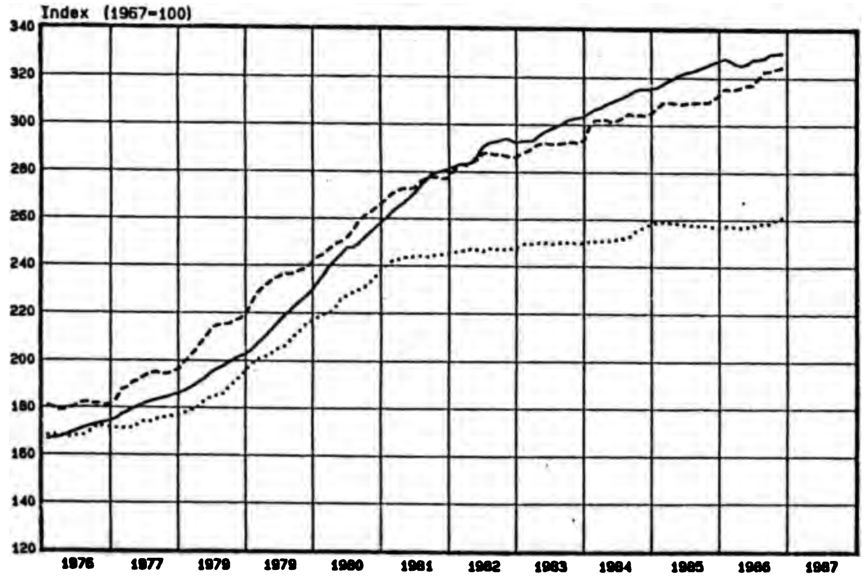


(SUPPLEMENTAL INFORMATION)

CONSUMER PRICE INDEX

SELECTED ITEMS, UNITED STATES, 1975-1986

ALL ———— FOOD -------- DAIRY ....



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